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OF LATIN AMERICA
AND THE CARIBBEAN

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This edition of the *Preliminary Overview of the Economies of Latin America and the Caribbean* was prepared by the Economic Development Division in collaboration with the Statistics and Economic Projections Division, the ECLAC subregional headquarters in Mexico and Port of Spain, and the ECLAC national offices in Argentina, Brazil and Colombia.

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The national accounts data presented in this edition of the *Overview* are based on the official statistics of each of the countries covered in this report; for purposes of comparison between countries, these statistics are, however, expressed in 1995 dollars. Thus, in some cases there may be apparent discrepancies with information issued by individual countries.

Notes and explanation of symbols

The following symbols have been used in the tables in this *Preliminary Overview*:

Three dots (...) indicate that data are not available or are not separately reported.
The dash (–) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.
A full stop (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, signifies an annual average for the calendar years involved, including the beginning and the end years.
References to “tons” mean metric tons, and to “dollars” United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth of variation mean cumulative annual rates.
Figures and percentages in tables may not neccessarily add up to the corresponding totals, because of rounding.

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CONTENTS

SUMMARY

The economies of Latin America and the Caribbean as a whole have grown by 1.5% in 2003. This contrasts favourably with the 0.4% reduction in GDP registered in 2002. The recovery has not been strong enough to make up for the stagnation of recent years, however, and per capita GDP is still 1.5% lower than in 1997. Gross capital formation has been virtually flat this year and stands at a level 12.5% lower than five years ago. The upturn in economic activity has generated a slight increase in the employment rate. Unemployment remains high at 10.7%, however, and poverty has spread to encompass almost 44% of the population of the region. The more buoyant economic performance of Latin America and the Caribbean has been associated with the international economic situation, which has brightened with the recovery in the United States and Japan and the growth of China.

The prices of commodities exported by the region have expanded by 15.9%, while the variation in the total export price index, which includes manufactures, is lower (2.8%). Despite a 1.5% rally in import prices, this reactivation has been sufficient to halt the deterioration in the terms of trade experienced between 1998 and 2002 (-3.3%). The combination of volumes and prices has made exports the most dynamic factor of demand. A record trade surplus (US$ 41 billion) has been recorded in 2003. The buoyancy of exports has been fairly widespread –on the order of 5% for Central America, the Andean Community and Chile and three times as high for MERCOSUR. Mexico’s non-oil exports, on the other hand, stagnated. The trade surplus contributed to an almost unprecedented result in the region’s current account: a US$ 6 billion surplus.

Capital flows have not behaved negatively, as they had in 2002. Autonomous capital movements have been practically neutral, with the US$ 3.5 billion in inflows comparing favourably with the outflows of US$ 14 billion recorded last year. In 2003, the countries of the region have been able to access funds at an average cost of 9.6%, which is 300 basis points less than 12 months earlier. Nevertheless, foreign investment has been on the decline. Latin America and the Caribbean have received nearly US$ 22 billion in compensatory funds, with almost half of that sum coming from the International Monetary Fund.

This international environment has provided a more favourable framework for the design of national economic policies. Fiscal and monetary instruments have once again failed to produce the hoped-for countercyclical effects, however. The region’s fiscal policy has been directed towards increasing the government’s primary surplus, but economic growth has been slow. The region’s primary balance has risen by almost 0.9%, moving from a deficit of 0.3% of GDP to a surplus of 0.6%.

In terms of the direction of monetary policy, the countries’ central banks have focused on controlling inflationary pressures. To achieve this, they initially raised rates and restricted liquidity. Once inflation started to subside, they induced a decline in interest rates, taking a more active stance in an effort to reverse the cycle.

Most countries have established and consolidated more flexible exchange-rate regimes and have been phasing out restrictions on foreign-exchange operations. By the end of the first 10 months of the year, the average exchange-rate index for the region showed a slight depreciation (2.6%) compared with the end of 2002.

The design and application of various fiscal and monetary instruments has resulted, among other things, in a decline in inflation. In 2003, prices have risen by 8.5%, four percentage points less than last year.

Bearing in mind the external situation and domestic economic trends, the prospects for 2004 are for a continuation of the upswing that began this year. Economic activity is expected to climb to an average rate of 3.5% for the region, which is well above the average for the last five years. The region is estimated to have achieved a year-on-year growth rate of around 2.5% in the fourth quarter, and its more robust performance in the second half of 2003 will pave the way for the expansion of its economy in 2004.

REGIONAL PANORAMA

1. Introduction

As foreseen by ECLAC in its midyear projections, the economy of Latin America and the Caribbean has grown by 1.5% in 2003. In contrast, the region's per capita GDP remained flat at 1.5% below the 1997 level. The lowest point of the cycle came in the first quarter of 2002, after which the economy began to make a mild recovery. The regional economy is expected to grow by 3.5% in 2004, leaving behind the "lost" six-year period that went before, and gradually entering into an expansionary phase. For the first time since 1997, there is no Latin American economy for which negative growth is projected.

This brighter outlook is in part a reflection of the more favourable international environment. The reduction in sovereign risk ratings from their peak levels of September-October 2002, the improvement in raw material prices, the expansion of tourism and the beginnings of an upswing in non-oil exports to the United States are the main positive impulses coming from the international economy. The stronger domestic positions achieved by the countries of the region are also significant, however. After six years of turbulence, most of the countries are emerging with fiscal and monetary policies well in hand and with more competitive exchange rates; even the economies that were overtaken by severe crises have already started to pick up.

The six years of negative per capita growth caused social damage that will take time to reverse. There are 20 million more poor Latin Americans in 2003 than there were in 1997. Unemployment has increased by two percentage points during this period and is now at 10.7%.

It appears that the projected growth phase will be stronger in those countries that have managed to reconcile improved economic governance with better political governance and weaker in those where the domestic political situation exhibits greater vulnerability. On the external front, the recovery of the world economy suffers from disequilibria that will have to be addressed primarily by the more developed economies.

The economies of Latin America and the Caribbean, taken as a whole, have grown by 1.5% in 2003. This contrasts favourably with the 0.4% reduction in GDP recorded for 2002. The recovery has not been strong enough to offset the economic stagnation experienced in the region in recent years, however: from 1998 to date, the region has grown by a low 1.3% per year, and per capita GDP is still 1.5% lower than in 1997. The reactivation of investment and saving will be of key importance in achieving higher growth rates. Gross capital formation has remained stagnant in 2003, and its current level is 12.5% lower than the rate recorded five years ago. National saving, which financed all of this year's investment, has also been insufficient. All in all, the countries in the region have a lower savings rate than other emerging economies in the world.

The positive economic outlook led to a slight increase in the employment rate. However, at 10.7%, unemployment remains high, and it is estimated that this year some 700,000 persons having joined the ranks of the urban unemployed, raising their number to 16.7 million. Given this weak growth profile and the sluggish labour market, it is hardly surprising that poverty and indigence in the region have both increased again this year. The existence of 227 million persons (44% of the population) living below the poverty line suggests the scope and complexity of the problem to be tackled.

The region's stronger performance has been linked to the situation in the international economy. The recovery in the United States, where the annual growth rate is expected to come to 2.9%, made it possible for the Latin American and Caribbean region to increase its exports to that market. Japan also introduced a new demand factor in the international arena, since, at 2.7%, its growth for 2003 is a vast improvement over the 2002 figure (0.2%) and the years of lethargy that preceded it. The Asian economies, led by China and its rapid expansion (a year-on-year rate of 8.5% for the first three quarters), boosted purchases and prices of various commodities exported by the region, such as copper, tin, iron and soybeans. The recovery and normalization of intraregional trade flows have also helped fuel greater economic activity.

The combined effect of these factors has been a 15.9% increase in the prices of commodities exported by Latin America and the Caribbean. Leaving aside oil, whose price jumped by 23%, the effect is still positive, although it is then reduced to 5.9%. If the price index for total exports (including manufactures) is used, then the variation is lower (2.8%). This upswing in export prices, although partially offset by a 1.5% rise in import prices, has been sufficient to halt the deterioration in the terms of trade seen between 1998 and 2002 (-3.3%). The improvement can be observed in both oil-producing and non-oil-producing countries alike, with the exception of Central America. The combination of increased volumes and higher prices has made exports the most dynamic demand factor and has turned 2003 into a record year in terms of the region's trade surplus (US$ 41 billion). The buoyancy of exports has been quite widespread as well, as growth rates for the year are on the order of 5% for Central America, the Andean Community and Chile and three times higher for MERCOSUR. In contrast to this performance, Mexico's non-oil exports have stagnated.

The hefty trade surplus has helped give rise to a nearly unprecedented outcome on the current account: a positive balance amounting to US$ 6 billion. This is the first time a surplus has been posted in half a century. However, the negative level of external saving is a result that requires cautious consideration when interpreting the growth process. In emerging economies, it is important that external savings accompany an appropriate level of national saving in order to sustain capital formation. In 2003, however, the region has not only lacked a complementary flow of savings from the rest of the world, but has also registered a decline in national saving in absolute values.

Apart from the growth impulses transmitted through the channel of trade, capital flows have also been positive, in contrast to the situation in 2002. Autonomous capital movements have been virtually neutral, with net inflows of US$ 3.5 billion comparing favourably with the US$ 14 billion outflow registered the year before. Financial flows have been negative, but direct investment inflows have more than offset that outflow. Foreign

Table 1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	2001	2002	2003 [a]
		Annual growth rates	
Economic activity and prices			
Gross domestic product	0.4	-0.4	1.5
Per capita gross domestic product	-1.1	-1.9	0.0
Consumer prices	6.0	12.1	9.0 [b]
Terms of trade	2.9	-0.9	1.3
		Percentages	
Urban open unemployment	9.8	10.6	10.7
Fiscal balance/GDP [c]	-3.2	-3.0	-2.4
		Billions of dollars	
External sector			
Exports of goods and services	390.6	392.6	421.2
Imports of goods and services	413.5	383.4	393.5
Balance on goods	-3.6	23.6	41.1
Balance on services	-19.3	-14.5	-13.5
Balance on income account	-55.2	50.8	-54.8
Balance on current account	-53.4	-14.0	6.0
Balance on capital and financial account	36.2	14.2	3.5
Overall balance	-17.2	-28.1	9.5
Net resource transfer	-2.6	40.2	-29.0

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Last 12 months available.
[c] Simple average.

investment has been on the decline, and the level posted for 2003 –US$ 29 billion– is 25% lower than the figure for 2002. This outcome points to a lower level of interest in local assets as well as reflecting the fact that the privatization process has run its course in many countries.

After a year of adverse markets for Latin American government debt in 2002, in 2003 the countries of the region have been able to access funds at an average cost of 9.6%, which is 300 basis points less than 12 months ago. At the beginning of December 2003, the interest rates being paid by the region were similar to the rates paid during the first half of 1997, prior to the outbreak of the Asian crisis. Mexico's and Chile's risk premiums are at record lows, and Brazil's has come down by 1,800 basis points between the last quarter of 2002 and December of this year. In addition, the Latin American and Caribbean region has received compensatory funds amounting to almost US$ 22 billion. Nearly half of this sum has been provided by IMF, since 11 countries in the region are implementing agreements they have signed with that organization. The other half corresponds to debt service arrears. In all, the countries have built up reserves of almost US$ 32 billion.

Despite the significant level of financing, the net transfer of resources continues to be negative (US$ 29 billion). This fact reflects, among other elements, the increasingly negative results being recorded on the income account, specifically in terms of profit remittances, dividends and interest payments on the debt and on the foreign investments that have accumulated over the years. Another structural feature that has been taking shape in Latin America and the Caribbean is the inflow of remittances from nationals residing abroad. Unilateral transfers amount to US$ 33 billion for 2003 and are acquiring key importance in various countries of the region, in particular Mexico and various Central American economies.

The international situation described above has provided a more positive setting than in 2002 for the design of national economic policy. Once again, however, fiscal and monetary instruments have failed to generate the hoped-for countercyclical effects. In terms of public finances, the countries' high levels of indebtedness, which in various cases are above 50% of GDP, have acted as a major constraint and have forced fiscal policy to move in the same direction as the business cycle. The effort to strengthen long-term fiscal solvency has dominated the design of income and expenditure policy, and fiscal policy in the region has thus been oriented towards increasing the primary government surplus despite the fact that economic growth rates have been low. The primary balance of the region has improved by almost one percentage point, moving from a deficit of 0.3% of GDP to a surplus of 0.6%. In view of this situation, the countries have taken steps to bring about an adjustment in expenditure, in addition to introducing other more intensive measures. More specifically, many governments have embarked upon social security reforms (especially in the public sector), new decentralization schemes, fiscal rules based on macroeconomic considerations and tax reforms. As ECLAC has indicated on numerous occasions, macroeconomic management calls for efficient tools for moderating the cycle. The countries will not recover the ability to make use of fiscal instruments overnight, however, as a number of structural issues that strongly influence solvency must first be resolved. Hence the importance of the public-sector reform agenda being pursued by the countries.

As for the direction of monetary policy, the countries' central banks have focused on controlling inflationary pressures. Various countries have set inflation targets and are using interest rates as a tool for meeting those target levels. In others, the authorities have chosen to use monetary aggregates to provide them with benchmarks for this purpose. Whatever instruments are chosen, the prevailing goal has been to reduce inflation rates, which had climbed to double-digit levels in 2002. This is particularly evident in countries such as Mexico, Brazil and Colombia, whose inflation indexes for the early months of the year were endangering their chances of meeting their policy goals. In order to deal with this situation, the authorities initially raised rates and restricted liquidity. Once inflation subsided, they paved the way for a reduction in interest rates and adopted a more active stance in an effort to reverse the business cycle. This greater degree of freedom in monetary management has been possible, among other reasons, because of the improved fiscal outturn. Argentina, Brazil and Mexico are finishing the year with real lending rates that are much lower than the rates charged on loans at the beginning of 2003.

Most of the countries have consolidated their use of more flexible exchange-rate regimes and have been phasing out restrictions on foreign-exchange operations. In fact, in 2003 very few changes have been made in the countries' exchange-rate regimes. The only exception is Venezuela, which adopted a fixed exchange rate in March together with strict controls on foreign-exchange operations. Despite this preference for a flexible exchange rate, currency values are closely monitored by the authorities in view of the influence they have on real and financial flows. In addition, various countries in the region have maintained a high degree of dollarization in their economies or have simply adopted the dollar as legal tender.

The real effective exchange rate is a key variable for commercial competitiveness. At the end of the first 10 months of the year, the region's average exchange-rate index showed a slight depreciation (2.6%) in relation to the end of 2002. Currency movements have been very uneven over the past months, however. The currencies of various South American countries (Brazil, Argentina and Chile) have not only undergone significant appreciations in relation to the dollar but have also risen slightly in value (1.6%) against the currencies of their trading partners. By contrast, the Central American and Mexican currencies have depreciated by almost 6% in relation to the dollar and by 8.4% against the other currencies. From an overall and longer-term perspective, the main point to be noted is that the exchange rates that are relevant to trade in the region are now 18% higher than their 1997-2001 average. Maintaining suitable exchange rates is an essential ingredient in expanding the export base while bringing in higher value-added and more technologically complex production activities.

Table 2

LATIN AMERICA AND THE CARIBBEAN: PROJECTIONS FOR 2004

(Annual variation rates)

	2002	2003[a]	2004 [b]
Latin America and the Caribbean	**-0.5**	**1.5**	**3.5**
Argentina	-10.8	7.3	4.5
Bolivia	2.7	2.5	2.5
Brazil	1.9	0.1	3.3
Chile	2.1	3.2	4.5
Colombia	1.7	3.4	3.0
Costa Rica	2.9	5.6	4.5
Ecuador	3.8	2.0	4.0
El Salvador	2.1	2.0	2.5
Guatemala	2.2	2.4	2.5
Haiti	-0.5	0.7	1.0
Honduras	2.4	3.0	2.5
Mexico	0.8	1.2	2.8
Nicaragua	0.7	2.3	2.5
Panama	0.8	3.0	3.0
Paraguay	-2.5	2.5	2.5
Peru	4.9	4.0	3.5
Dominican Republic	4.3	-1.3	0.0
Uruguay	-10.7	1.0	4.0
Venezuela	-9.0	-9.5	7.0

Source: ECLAC, Economic Projections Centre.
[a] Estimate.
[b] Projection.

The design and implementation of various fiscal and monetary instruments has helped, inter alia, to reduce inflation. In 2003, prices have increased by 8.5%, four percentage points less than the previous year. The region has thus returned to single-digit levels of inflation, as was the case between 1998 and 2001. This return to low inflation rates takes on added importance in the light of the difficulties experienced in 2001 and 2002, including, in particular, substantial rises in nominal exchange rates. Accordingly, relative prices have been altered without fuelling inflation, in clear contrast to the problems encountered by the region in this respect in the past. The management of economic policy and the absence of cost pressures have also contributed to these results.

In view of the external environment and economic trends on the domestic front, in 2004 the region should continue the expansion that began in 2003. An increase in economic activity is expected to bring the average rate for the region up to 3.5%, which is far higher than the average for the past five years. Growth estimates for the fourth quarter of 2003 point to an acceleration of economic activity to a level 2.5% above the rate for the same period in 2002. Consequently, in 2004 growth will be fuelled by the region's improved performance in the second half of 2003. An analysis of various external and internal factors suggests that these favourable economic trends will continue during 2004. First of all, the positive factors that brought about the recovery in 2003, particularly in the export sector, will continue to apply. The reactivation of the world economy ought to continue, bringing with it an upturn in prices and in international demand for commodities. In the light of the most recent data, the recovery in the United States is also expected to continue in 2004, thanks to unprecedented fiscal and monetary incentives. Yet the situation is not free of risk. The serious external and fiscal disequilibria affecting the United States economy could make the dollar fall further and, in that event, interest rates would rise. Most analysts agree that these adjustments are necessary and ought to occur in late 2004 or in 2005. At this point, however, it is still too early to project the conditions under which this shift in the world's largest economy might take place.

There are also internal factors that contribute to this favourable outlook for 2004. Although each country has its own particular features and the factors discussed here have varying effects in each case, some considerations that are valid for the region as a whole can be advanced. First, domestic interest rates should continue to fall during the first half of 2004, provided that domestic prices also continue to drop. Furthermore, international interest rates are expected to remain rather low during most of 2004, thereby minimizing external pressures for an increase in domestic interest rates. Second, the Latin American and Caribbean countries' exchange rates will remain high, despite the cases of currency appreciation observed in the last few months of 2003. Third, if economic activity continues to pick up, fiscal policy may cease to be contractionary and could even become expansionary in some countries. Finally, it should be pointed out that the region's performance will be influenced by the elections due to be held in various countries of the region during 2004.

As far as the region's largest economies are concerned, it is estimated that Argentina, which has made such a rapid recovery since the end of 2002, will grow at a rate lower than in 2003 but still higher than the average rate for Latin America and the Caribbean. The increase in investment seen in 2003 should continue, but at lower rates. This will help to sustain growth in the short and medium terms. The upswing in private consumption is also expected to continue in 2004, but there are some doubts as to the pace at which credit will recover. The restructuring of the financial system is under way and the renegotiation of the foreign debt is still pending. In Brazil, more rapid growth is projected for 2004 based on the revitalization of domestic demand (both private consumption and investment). Domestic interest rates should continue to fall, provided that no pressure is put on the exchange rate and no factors emerge that would drive prices up. The expansion of industrial activity in the last few months of 2003 should also continue into 2004. The performance of the Mexican economy will be closely linked to that of the United States, although problems in relation to the competitiveness of its economy could continue to limit Mexico's capacity to take advantage of an increase in demand in that market.

2. External sector

In 2003, the external sector in Latin America and the Caribbean has benefited from the recovery of the world economy. Increased economic activity has been reflected in an expansion of export markets and higher export prices. The terms of trade have also improved this year, thereby halting the deterioration observed since 1997. Imports have rebounded from last year's drastic adjustment, although they failed to reach the levels recorded in 2000. For the first time in half a century, the region is running a surplus (0.4% of regional GDP) on the balance-of-payments current account. This has been achieved despite a further increase in the already high level of net payments of interest, profits and dividends, and is attributable to the large trade surplus and the record level of remittances received by the region. Capital flows are virtually balanced, following last year's net outflow. The high level of compensatory credits and exceptional financing is on a par with the figure recorded the year before. All these movements have contributed to a significant increase in international reserves, which stand at US$ 32 billion. Meanwhile, the region has registered US$ 29 billion in outward transfers, which is equivalent to 6.9% of its exports of goods and services. Although a larger amount was transferred in 2002 (US$ 40.2 billion), this year's level is still extremely high.

The world economy recovers but uncertainties remain

In the second half of 2003 world economic activity has taken a positive turn which, despite some risks, should continue in 2004. The impetus for this trend change has been the onset of a more stable recovery in the United States, where the extraordinary package of expansionary fiscal and monetary policies put in place by the government began to exert a strong effect between the second and third quarters of this year. The United States economy is expected to have grown by 2.9% in 2003 and should reach between 3% and 4% in 2004, as long as investment continues to react favourably to the fiscal stimulus measures, the interest rate does not suddenly rise and the expansion begins to be accompanied by an increase in employment. In the euro zone, however, the growth rate stands at a mere 0.5% and the outlook for 2004 is not very bright owing to the appreciation of the euro, the high level of unemployment and the limitations imposed by the Stability and Growth Pact on the implementation of expansionary fiscal policies at this juncture. Germany and France have recently, however, been authorized to run a higher fiscal deficit than is allowed for in the Pact. In Asia, Japan's growth rate has picked up from 0.2% in 2002 to 2.7% in 2003 thanks to investment and exports. This upturn has been concentrated in a limited number of manufacturing sectors, however, so it is still too early to say if this marks the end of the Japanese economy's protracted bout of lethargy. Generally speaking, the Asian nations, and especially China, have been the most dynamic ones in the world economy this year. As of the third quarter, China had a cumulative growth rate of 8.5% relative to the same period of 2002, and a similar rate of expansion is expected in 2004.

At this point in time, the main risk for the world economy is the high level of public and private debt in the United States and the possible secondary effects of the expansionary policies implemented in that country. These measures have driven up the fiscal and balance-of-payments current account deficits to their highest levels of the past 25 years. To cover the deficit that the United States is running on its current account, it is essential that the rest of the world (in particular some European and Asian countries) remain willing to use a portion of its savings to help finance it. And in order for this to occur, the outlook for the United States economy must remain relatively favourable and the dollar must not undergo any sharp depreciation. In 2003, the dollar has experienced a significant devaluation against the euro and the yen in a context of exchange-rate volatility, and the possibility exists that the present imbalances could lead to a further depreciation of the dollar. If this were to occur, capital inflows to the United States would wane, which would in turn force up interest rates. This could put a brake on the current recovery process, with the consequent negative implications for the world economy.

The reactivation of the world economy has taken place under circumstances that have been favourable, in two different ways, for Latin America and the Caribbean. From a financial vantage point, the decline in international interest rates has made it possible to lower interest rates in a number of countries[1] and has reduced the cost of external borrowing. In the area of trade, several countries have benefited directly from Asia's burgeoning growth, since that region has a shortage of natural resources. China's expansion has been particularly significant, and this country has been integrating itself into the world market very rapidly. In the first 10 months of 2003, China's external trade flows rose by 36.4% relative to the corresponding period in 2002.[2] Over the same period, Chinese imports jumped by 40.4%, and many of the major product lines making up those imports are ones in which various Latin American countries have an exportable supply (e.g., soybeans and copper). Chinese purchases of these commodities have helped to boost their prices and the volumes exported by some countries in the region.[3] Growth in Japan has also contributed, although to a lesser degree, to the strength of some commodity markets in the second half of the year, especially in the case of copper.

Although the United States' recovery has spurred the growth of its non-oil imports, in September 2003 they were still 2.1% below the pre-recession peak value reached three years earlier (see figure 1). The reactivation has been very positive for Latin America and the Caribbean, although it has had uneven effects on different countries. Mexico, which is the main trading partner of the United States in the region (around 65% of United States imports from Latin America and the Caribbean come from Mexico), has seen its placements in this market decline since mid-2002. In contrast, other subregional groups have increased their shares in the United States market,[4] with their sales rising at rates above the world average ever since the onset of the recovery early this year. For example, MERCOSUR sales, particularly those of Brazil, have climbed considerably and have stabilized at these levels during 2003. A similar pattern has been seen in the Central American and Caribbean countries' sales, while the exports of the Andean Community and Chile have held to an upward trend throughout the year.

Improving commodity prices and terms of trade

Between January and October 2003, the price index for Latin American and Caribbean commodity exports rose by 15.9% compared to the same period in 2002; excluding oil, the increase was 5.9% (see figure 2).

The prices of non-oil commodities have rebounded strongly this year, although they are still 17% below their 1997 average. The price rise has boosted exports from various South American countries, especially in the latter part of the year. In 2003 there have been two-digit increases in the prices of soybeans and soy products, some raw materials such as cotton and wool, minerals such as copper and tin, and other commodities such as rolled steel. Gold prices have also soared as gold's role as a store of value has increased in importance, and this has spurred exports from Peru and Colombia. The Central American and Caribbean countries, for their part, have seen significant upswings in sugar, cocoa and some varieties of coffee.

1 See the section on monetary policy.

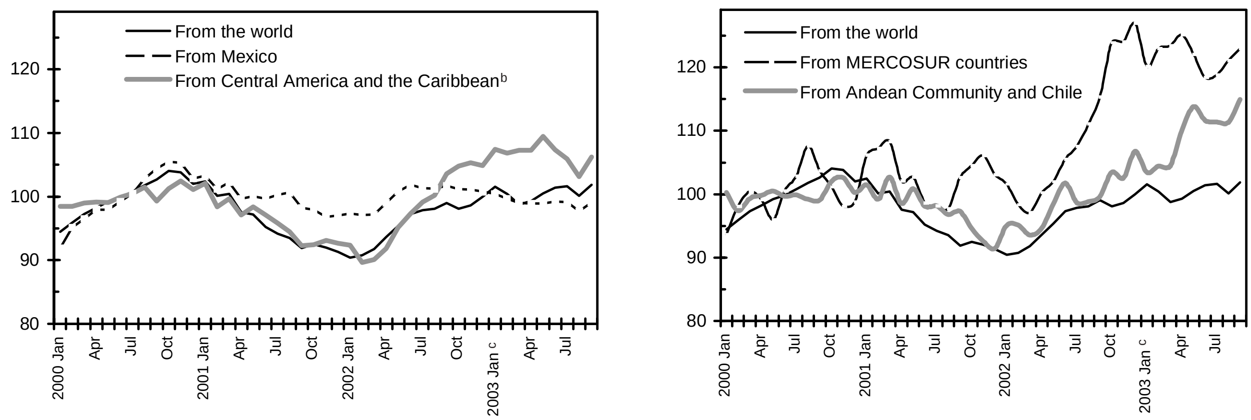
2 The value of China's exports is currently equivalent to about 60% of the value of total United States exports.

3 China was the destination for 9% of Argentine exports in the first 10 months of 2003, while in the corresponding period of the previous year, the figure was 5%. For Brazil, exports to China represent 6.5% of the total exported in January-October 2003, whereas in 2002, the figure was 4.2%. Brazil accounts for about 1.5% of Chinese imports.

4 The changing composition of United States imports also affects other countries. For example, while imports from China have risen very rapidly, those from Japan show a declining trend.

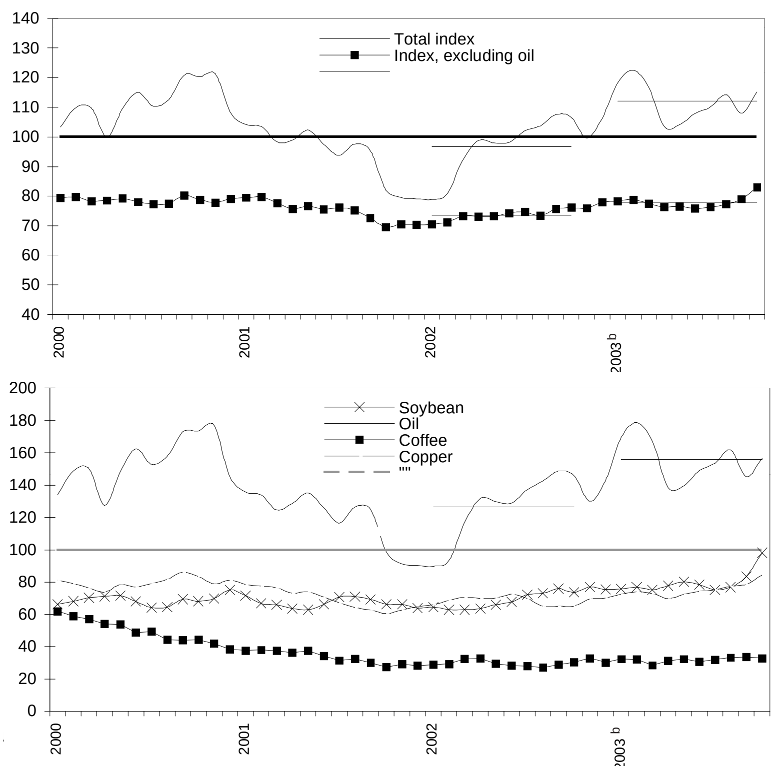
Figure 1
UNITED STATES: NON-OIL IMPORTS[a]
(Index: 2000 = 100)

Mexico, Central America and the Caribbean **MERCOSUR, Andean Community and Chile**



Source: ECLAC, on the basis of figures from the United States International Trade Commission.
[a] Seasonally adjusted series. Three-month moving average.
[b] Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica and Nicaragua.
[c] Preliminary figures.

Figure 2
LATIN AMERICA AND THE CARIBBEAN: COMMODITY EXPORT PRICES
(Monthly index: 1997=100)[a]



Source: ECLAC, on the basis of official figures.
[a] The base year for this index is 1995; the index is weighted by each product's share in the region's exports for that year. For analytical purposes, 1997 is used as the reference year for this figure.
[b] Preliminary figures to October.

Over the same period, the price of crude oil has jumped by 23% (11% in 2002), and the prospects for 2004 are that it will remain at levels similar to those reached in 2003. Although the short duration of the war in Iraq attenuated the sharp increase witnessed early in the year, the market has kept prices high in the face of continuing uncertainty about the situation in the Middle East. Other factors include the production cuts announced by the Organization of Petroleum Exporting Countries (OPEC) in November and the low level of inventories in the United States.

The rising trend in major commodity export prices is due to various factors. First, as already mentioned, the upswing in economic activity worldwide, and especially in the Asian countries, has stimulated imports of products such as soybeans and copper, thereby pushing up their prices. The bright outlook on some of these markets also seems to have encouraged financial investments that have strengthened prices. In addition, the devaluation of the dollar has provided an indirect stimulus for these markets. This is because, since trade in these products is conducted in dollars, the devaluation has made these commodities relatively cheaper for buyers holding currencies that have appreciated over the course of the year, such as the euro and the yen.

Higher commodity prices notwithstanding, the increase in the prices of the region's total exports has been just 2.8%. This is due to the fact that the prices of other products, such as manufactures, have risen much less or decreased in 2003. In any case, the price increase for exports has been higher than that of imports (1.5%), thus halting the deterioration of the region's terms of trade. Between 1998 and 2002, there was a cumulative loss of 3.3% in the region's total terms of trade and one of 14.9% for the non-oil countries (see figure 3). In 2003, the terms of trade for the region have improved by 1.3% overall, with the gain for the oil-exporting countries being 2.6%, compared to 0.5% for the non-oil countries. As a result of this improvement, the increase in national income in the region has outstripped GDP growth. Thanks to the high prices of some agricultural goods, Argentina and Bolivia have seen improvements in their terms of trade amounting to 8.6% and 4.9%, respectively. In the cases of Chile and Peru, the improvement amounts to 2.4% and 2.2% and is attributable to higher copper and gold prices. These two countries sustained the greatest cumulative deterioration in 1997-2002 (-22.7% and -17.5%, respectively). Meanwhile, the Central American countries, which also suffered large losses over that period, have continued to face unfavourable terms of trade in 2003, as the increases from record lows in coffee and sugar prices have been offset by higher oil prices.

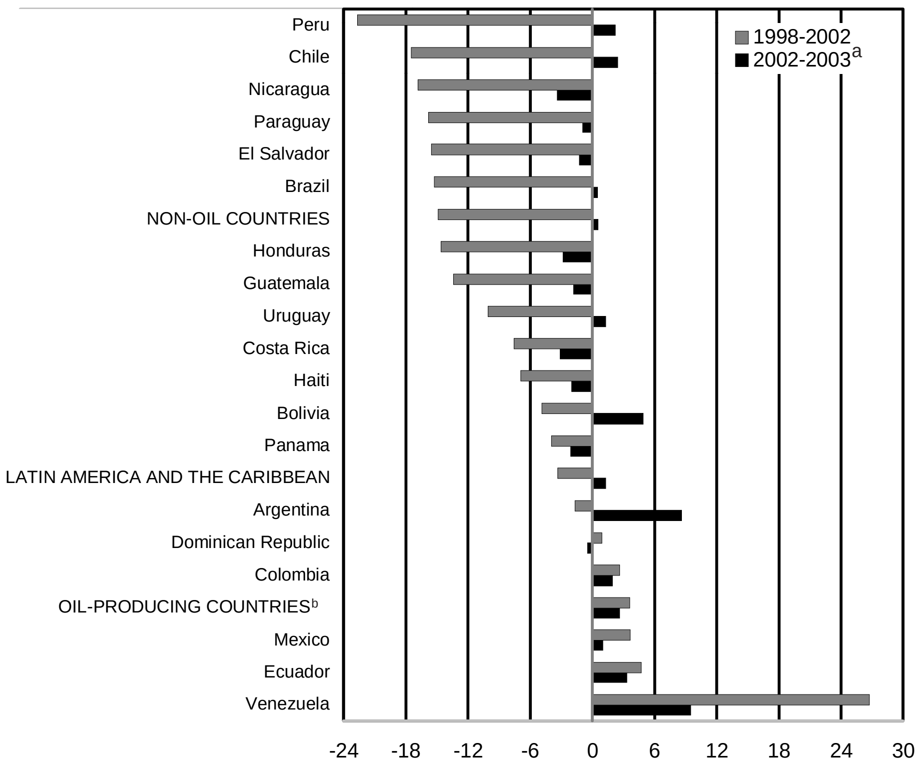
Capital inflows recover

Thanks to the upturn in the international financial market, capital flows to Latin America have rebounded somewhat, although they are still no higher than the low levels seen in the early 1990s. Since late 2002, investors have become much less risk-averse, in part because the uncertainty that had surrounded the presidential elections in Brazil has ceased to be a factor. This has been reflected in lower risk premiums (spreads) on external public debt bonds. In fact, after having climbed to 2,400 basis points in September 2002, risk premiums began to decline late in the year and have continued to drop steadily thereafter, reaching 500 basis points –the lowest level to be recorded since May 1998– at the start of December 2003.

The region's net capital inflows amount to US$ 25.8 billion for the year, in comparison to the US$ 10.6 billion received in 2002 (see table A-6 of the statistical annex). Net inflows have remained positive in the Central American countries, Chile, Colombia, Ecuador and Peru and are quite close to their 2002 levels. Brazil's and Mexico's abundant capital inflows for 2003 amount to over US$ 12 billion. In Brazil's case, these funds are credits from the International Monetary Fund (IMF), while in Mexico's, they have taken the form of autonomous capital flows. Uruguay is posting a positive net balance this year, in contrast to the net outflow it registered in 2002. Argentina and Venezuela are recording net outflows of capital for the second year in a row. Net autonomous inflows for 2003 amount to some US$ 3.5 billion, in contrast to the US$ 14 billion net outflow of 2002.[5] Inbound foreign direct investment (FDI) far outweighed net outflows of financial capital. After registering a net outflow of equity capital in 2002, the region witnessed a turnaround in the direction of these flows during the first half of 2003, thanks to the low level of stock prices in dollars. Midway through the year, investment by non-residents totalled approximately US$ 4 billion. The strong upsurge seen in the countries' national stock exchanges up to November 2003 has triggered a 50% rise in the regional dollar-denominated index, which brings it back up to early-2001 levels.

5 Autonomous capital inflows are the sum of foreign direct investment, equity investment, bank loans and non-bank borrowings (mainly bonds), official flows (other than IMF credit) and the errors and omissions entry on the balance of payments. Compensatory capital includes IMF credits and exceptional financing (including interest arrears).

Figure 3
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
(Cumulative percentage variation for 1998-2002 and variation for 2003)



Source: ECLAC, on the basis of official figures.
[a] 2003, preliminary figures.
[b] Argentina, Colombia, Ecuador, Mexico and Venezuela.

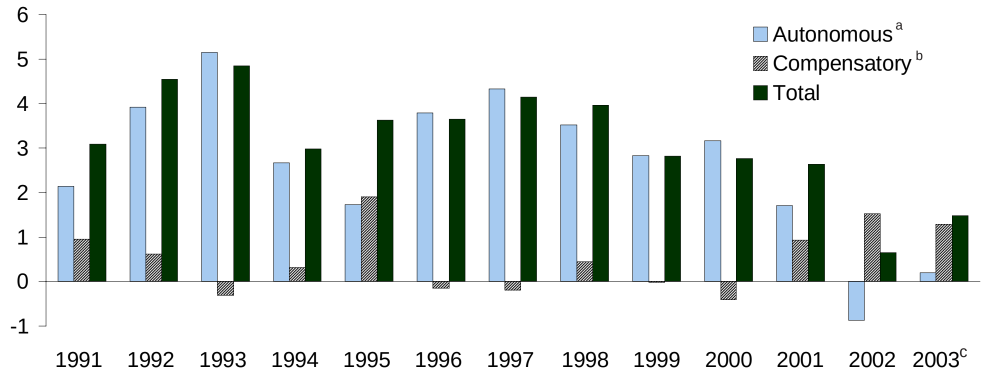
In 2003 the region once again recorded a positive net inflow of compensatory capital (US$ 22.3 billion); almost US$ 12 billion of this sum is made up of IMF credits, with the remainder being composed of exceptional financing (mainly interest arrears in Argentina).

Capital flows to the region are expected to continue to rise in 2004 as the industrialized economies' performance improves. Against a backdrop of continued contract stability, FDI flows are likely to be directed towards the development of new areas and the privatization of services, while financial capital will continue to be used chiefly to refinance external obligations.

As of September, net IMF financing totalled US$ 11.3 billion (compared to US$ 12.2 billion in 2002). At year's end, 11 Latin American and Caribbean countries have arrangements with the Fund, but three of them (Colombia, Guatemala and Peru) have not made use of these credits. Of the countries that have drawn on these funds, Brazil and Uruguay have received the largest net sums (see table A-6 of the statistical annex). In Argentina, IMF-approved credits have been just enough to cover the country's commitments with that institution. Ecuador, Bolivia and the Dominican Republic have also received funds, while Guyana and Nicaragua have received some disbursements under the Poverty Reduction and Growth Facility. In Paraguay, a political agreement concerning an economic reform package was signed in October by the government and by the political parties represented in the congress, and since then the government has made headway in its negotiations with IMF regarding a special drawing rights agreement which is to be signed in mid-December. The net amount of financing that the region has received from other multilateral agencies in 2003 is negligible.

FDI flows have continued to shrink in 2003 and net outflows continue to be registered for other categories of financial capital (especially bank lending), even though the region's gross sales on the international bond market have been higher than in 2002. These results constitute a continuation of the trends in total external

Figure 4
LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INCOME BY COMPONENTS
(In percentages of gross domestic product at current prices)



Source: ECLAC, on the basis of official figures and figures from the International Monetary Fund.
[a] Capital and financial balances plus errors and omissions.
[b] Includes IMF loans and credit and exceptional financing.
[c] Preliminary estimate.

finance that began to take shape in Latin America and the Caribbean in 1999 (see figure 4). As a result, the contribution made by autonomous capital inflows to the region's development during the past five years has fallen to an average of 1.7% of GDP, or half of what it was in 1994-1998. This outcome reflects the impact of the series of crises and disruptions that began with the 1997 Asian crisis and the moratorium declared by the Russian Federation in August 1998 and were then compounded by turbulence and/or outbreaks in a number of Latin American and Caribbean countries. In 2003, the list of such difficulties has continued with serious economic and/or political crises in Bolivia, the Dominican Republic and Venezuela.

The region has witnessed a large negative transfer of resources owing to its factor payments

The region's profit remittances and interest paid or due (factor payments) have risen from US$ 50.8 billion in 2002 to US$ 54.8 billion in 2003. Remittances have been higher (in contrast to the situation in 2001 and 2002) and interest payments are up as well, largely because of interest due but not yet paid. When total capital inflows (US$ 25.8 billion) are subtracted from the figure for factor payments, the result shows that the region is recording a negative net transfer of resources for the fifth year running. For 2003, this transfer totals US$ 29 billion, as compared to US$ 40.2 billion in 2002. This means that, over the last five years, Latin America has witnessed a cumulative outflow of resources equivalent to 5% of GDP.

Although this negative transfer is somewhat smaller in 2003 than in 2002, the worrisome downward trend in direct investment inflows to the region has persisted (see figure 5).

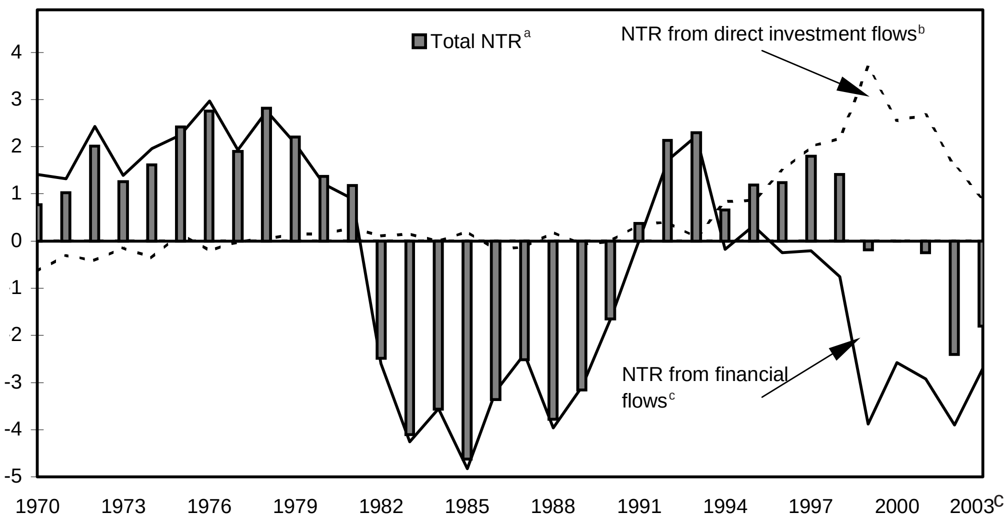
Foreign direct investment (FDI) is down once again

Since 2000, inflows of FDI to the region have been losing the momentum seen in earlier years and have been gradually but clearly declining. For 2003, these inflows amount to US$ 29 billion, which is well under the 1990-2002 average of US$ 38 billion and 25% lower than the figure for 2002 (see table A-16 of the statistical annex).

The reasons for this slide in FDI include the downturn in the acquisition by foreign residents of privately held assets in the countries of the region and the virtual completion of the privatization process in 2002 in many countries. In addition, some transnational groups have continued to scale back the implementation of their expansion strategies, which, during the international boom in mergers and acquisitions, had led them to buy up public and private firms in Latin America. The situation in the MERCOSUR countries in 2001-2002 and the economic or political instability experienced by some countries in 2003 have also been factors in the reduction of FDI.

FDI is down in 12 Latin American and Caribbean countries. Paraguay and Venezuela saw a net outflow

Figure 5
LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES
(in percentages of the gross domestic product at current prices)



Source: ECLAC, on the basis of official figures.
[a] The net transfer of resources (NTR) is calculated by subtracting the income balance (net profit and interest payments) from the total net capital inflow. The total net capital inflow corresponds to the capital and financial balances, plus errors and omissions, IMF loans and credit and exceptional financing. Negative figures indicate outward resource transfers.
[b] Is equivalent to net foreign direct investment inflow (FDI) minus net profit remittances.
[c] Is equivalent to net inflow from other non-FDI capital, minus net interest payments.
[d] Preliminary estimate.

of FDI in 2002, but this year that flow has reversed direction. In the rest of the countries (with the exception of Panama), small positive variations are being posted. In Brazil, the net flow of FDI has dropped from US$ 14 billion in 2002 to US$ 7.15 billion in 2003.

In countries where FDI has been buoyant, approximately 30% of inflows have been accounted for by the reinvestment of profits. In Chile, the level of net FDI inflows is similar to what it was in 2002, but this year outbound FDI has more than doubled. In Mexico, net inflows have hovered around the average for the past five years. Ecuador is the only country to receive record FDI flows. A considerable percentage of this has been made up of investments associated with the country's new heavy crude pipeline and other investments in the petroleum sector designed to boost private producers' output of crude oil so that they can take advantage of the pipeline's recent start-up.

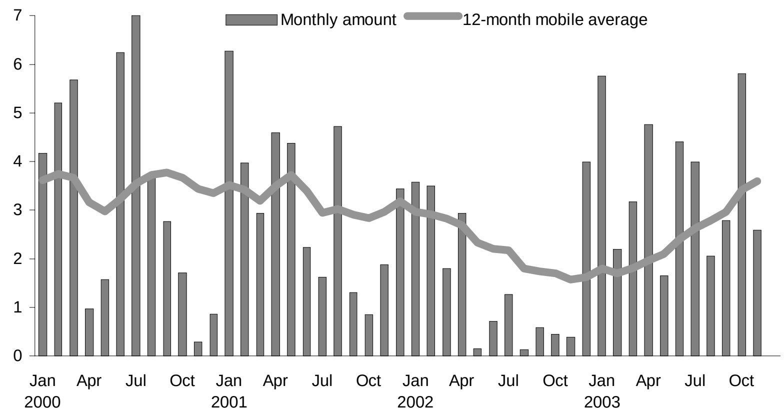
Since December 2002, after a seven-month hiatus in bond placements by the countries of the region, activity on the bond market has been brisker (see figure 6). Between January and September 2003, gross placements amounted to US$ 21 billion, which is more than the volume for all of 2002. Two thirds of these sales have been made by the Governments of Brazil and Mexico and firms in those countries (PEMEX and PETROBRAS), which have been the main borrowers. The remainder is accounted for by the Governments of Belize, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Peru and Venezuela and by some firms (including the Chilean firm CODELCO). In most of the countries, these funds have been used to refinance debts that were nearing maturity, but in some cases they have been used to exchange domestic debt for external debt (see table A-17 of the statistical annex).

The cost of external borrowing has declined

As global financial markets have strengthened, the average cost of external financing for the region has declined from an annual rate of 12% to 9.6% in 2003. The cost of borrowing has moved lower as the year progresses, reaching 8.3% in early December.[6] The

6 This figure represents a weighted average based on the level of 10-year maturities. Early in December, the annual cost for the region's largest borrowers, Brazil and Mexico, amounted to 9.3% and 6.3%, respectively. By way of comparison, the cost was 8.8% for the Philippines, 6.8% for the Russian Federation and 5.3% for the Republic of Korea.

Figure 6
LATIN AMERICA AND THE CARIBBEAN INTERNATIONAL BOND ISSUES
(In billions of dollars)



Source: ECLAC, on the basis of information from Merrill Lynch.

average cost for 2003 is similar to what it was in the first half of 1997, before the outbreak of the Asian crisis. This crisis had only a slight effect on the cost of external finance in the fourth quarter of 1997 (see figure 7), but average maturities have taken a turn for the worse, shrinking from 15 years prior to the Asian crisis to 10 years in 2002 and 9 years in 2003. The reduction in the cost of borrowing is attributable to the considerable decrease in the risk premiums on external public debt since November 2002 (see figure 8).[7] The effect of this trend has been heightened by a series of sizeable reductions in international interest rates and the consequent drop in the yield of United States Treasury bonds to 3.6% per annum as of mid-2003, although this rate has increased slightly since then.

This reduction in the cost of external borrowings has also been reflected in the countries' debts with multilateral agencies and official lenders.

In recent years, most of the governments in the region have used the resources they obtain to roll over external debts, and a number of these governments have reached the limit of their debt-carrying capacity. It is therefore important for such governments to adopt a prudent external borrowing policy during this relative boom on the bond market. In point of fact, as of year's end, the risk premiums of Chile and Mexico, whose governments have persevered with just such a policy for several years, are the lowest in the region and in those countries' histories (90 and 190 basis points, respectively) (see figure 8).

Exports pick up and imports recover

In 2003 the region is posting a positive merchandise trade balance of close to US$ 41.1 billion, which is comparable only to the level achieved in 1984 and is almost twice as high as the already significant surplus of 2002 (see figure 9). This balance reflects a 7.4% expansion of exports (7%, excluding oil) and a 2.5% increase in imports. If Mexico is factored out of the calculations, then the exports of the rest of the region have grown by 11.4%, and if Venezuela is also excluded, then the rate reaches 14.2%.[8]

The overall picture for 2003 thus shows a substantial upswing in exports and gain for imports in relation to 2002, as the rates of variation for that year were 1% and -6.8%, respectively. The adjustment in imports in 2002 was thus followed by the expansion of exports noted in 2003.[9]

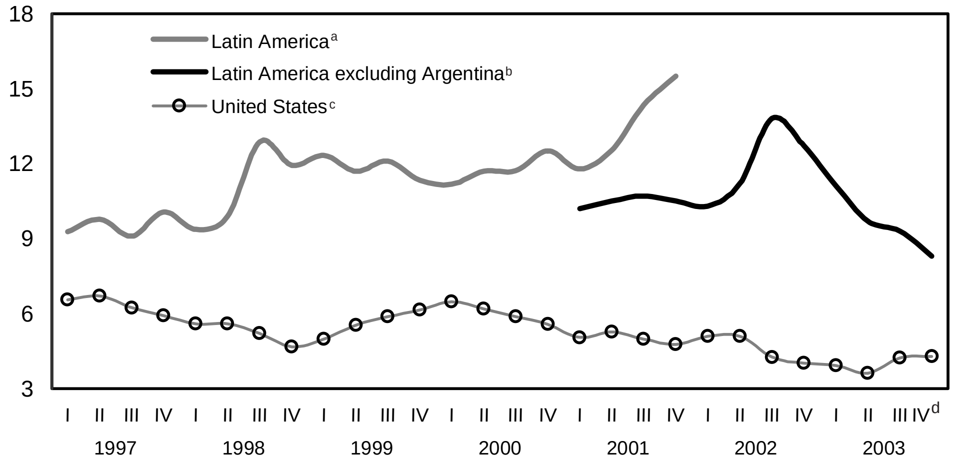
The increase in *exports* has been fairly widespread. MERCOSUR exports have climbed by 18%, those of Central America and the Caribbean by 5% and those of the Andean Community and Chile by 5.3% (excluding Venezuela, the growth rate for the exports of this subgroup is 11.5%). By contrast, Mexico's total exports

7 The risk premium is the difference between the rate of return on sovereign debt traded on the international market and the return on equivalent United States Treasury bonds; 100 basis points equal 1% annual interest.

8 Mexico accounts for 45% of the region's exports and has turned in a weak performance on this front in 2003; Venezuelan exports have fallen by 5%.

9 The last time a situation of the sort existing in 2002-2003 occurred was in 1983-1984 at the outbreak of the debt crisis.

Figure 7
LATIN AMERICA AND THE CARIBBEAN: COST OF INTERNATIONAL BOND ISSUES
(In percentages)



Source: ECLAC, on the basis of data from J.P. Morgan and Merrill Lynch.
[a] Sum of the average spread for bond issues and the yield on ten-year United States Treasury bonds. Spreads correspond to estimates in the Latin Eurobond Index (LEI). [b] LEI recalculated using fixed weightings corresponding to November 2001. [c] Yield of ten-year treasury bonds. [d] October and November.

have risen by just 2.7%, and exports other than oil have not grown at all. The factors that have influenced export behaviour have had differing effects in each group of countries. These factors include the growth in world demand, higher commodity prices, the real devaluation in some countries during 2002 and the countries' ability to increase supply by taking advantage, in some cases, of prior investments in mining and agriculture and, in others, of installed capacity that is being underutilized because of a contraction of the domestic market. Although it is clear that the moderate improvement in the world economic situation has been a determining factor in the rise in commodity prices, the existence of idle installed capacity has allowed some countries, especially exporters of mining products, to expand their production in order to capitalize upon the upturn in these prices. The real devaluations that occurred in some countries in 2002, especially those of MERCOSUR and Chile, have also increased the profitability of some non-traditional export sectors.

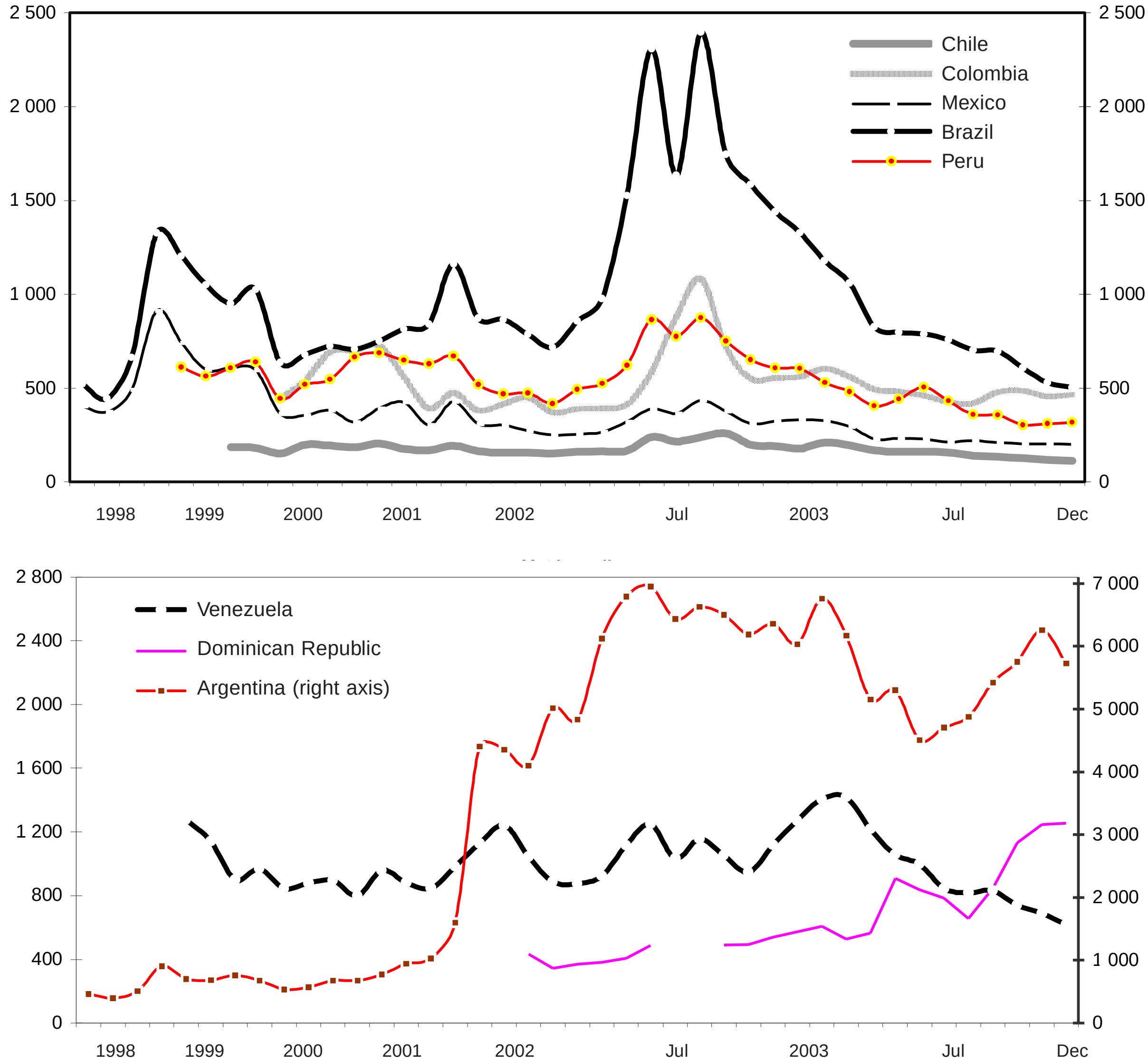
All in all, increases in the volume of shipments have made a more important contribution to export growth than the rise in prices, although the latter has by no means been a marginal factor for many countries (see figure 10). Argentina, Bolivia, Chile, Peru and others have benefited from price increases of over 5%.

Some Central American and Caribbean countries have gained from price rises for such products as coffee and sugar, as well as from the expansion of maquila activities. Mexico, which is strongly influenced –as are these other countries– by the United States business cycle, has suffered a loss of competitiveness owing to the appearance of competitors with lower costs, such as China, and to the relative decline in prices and costs in some Central American and Caribbean countries. Another factor is that the Mexican peso has appreciated in past years, even though it has undergone a real depreciation in 2003. The loss of competitiveness in manufactures, which constitute the bulk of Mexico's exports, has prevented it from benefiting from the recovery of the United States economy. Oil –whose export volumes also rose– is the only product that has performed well.

Almost all of the Andean countries and Chile have increased their production of hydrocarbons (Bolivia, Ecuador), and Chile and Peru have expanded their mining industries' output, thus benefiting from the higher prices being brought by many of these products. In Venezuela, higher oil prices have partially offset falling production levels.

MERCOSUR exports owe their dynamism to the combined effect of increased production of the main product lines and higher prices for some agricultural products, especially soybeans and soy products. The increases in export volumes are mainly a result of the improved profitability of export activity brought about by the 2002 devaluations and the introduction of technological innovations. In the case of Brazil, exports of industrial manufactures are also up. Although this increase has been driven by higher exports of some basic industrial commodities prices have strengthened (mainly

Figure 8
LATIN AMERICA AND THE CARIBBEAN: SOVEREIGN BOND SPREADS WITH RESPECT TO UNITED STATES TREASURY BONDS
(Base points)



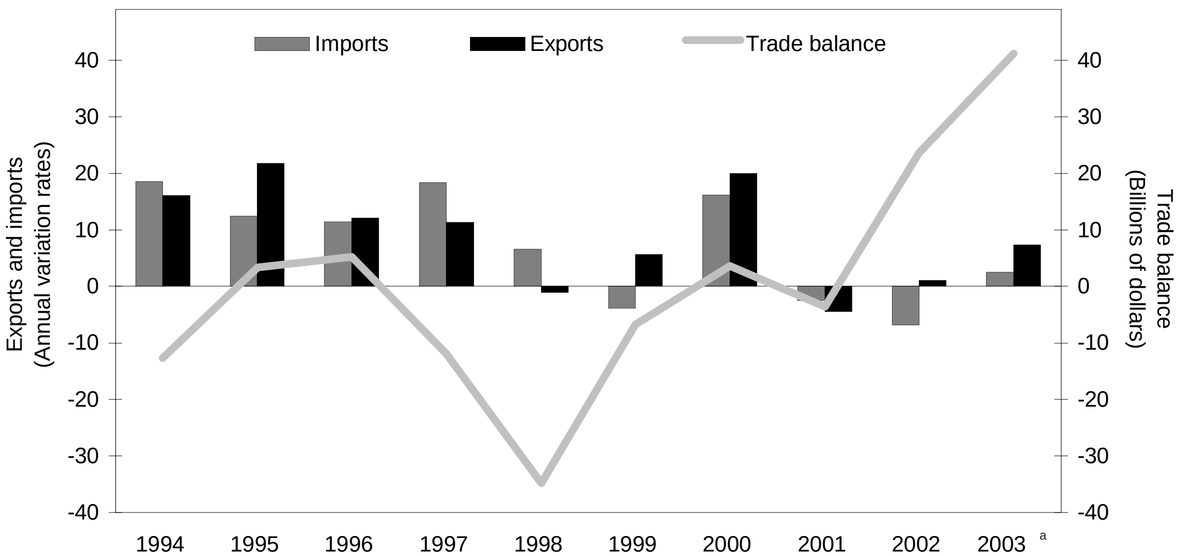
Source: ECLAC, on the basis of data from J.P. Morgan.
[a] On the basis of the Emerging Markets Bond Index (EMBI) except in the cases of Chile, the Dominican Republic and Uruguay, in which data from a representative bond were used.

iron and steel), exports of other manufactures have also risen. Much of the latter increase has been seen in branches of industry that have redirected products to the external market because they have not succeeded in placing them on the domestic market.

The increase in *imports*, which has been especially significant in the second half of the year, has not been large enough for them to match the level reached in 2000. Growth has been led by the South American economies, whose domestic markets have been picking up (especially in the case of Argentina). In some of these countries –particularly Chile and, to some extent, Brazil– the real appreciation of their currencies in 2003 has stimulated imports.[10] The upturn in Brazilian imports

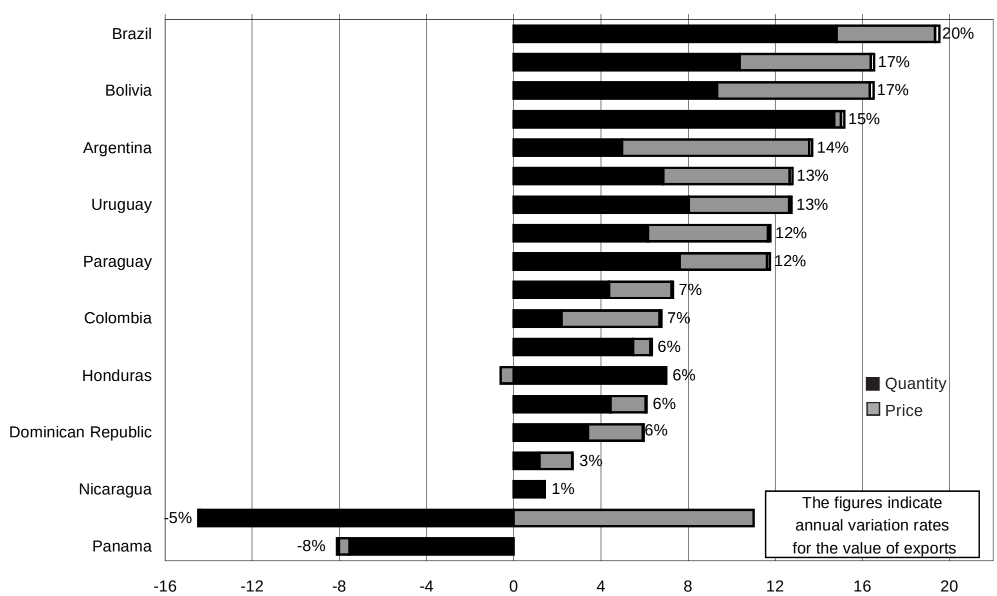
10 Real exchange rates have been somewhat higher in 2003 than before the crisis, however. See the section on exchange-rate policy.

Figure 9
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL TRADE
(Annual rates of variation for exports and imports;
trade balance, in billions of dollars)



Source: ECLAC, on the basis of official figures.
[a] 2003, preliminary figures.

Figure 10
LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE VARIATION OF EXPORTS OF GOODS FOB, BY UNIT PRICE AND QUANTITY, 2003 [a]



Source: ECLAC, on the basis of official figures.
[a] Preliminary figures.

in the closing months of 2003 signals an improvement in the country's prospects for the coming year, since the overall figure includes a significant increase in purchases of capital goods.

The *balance of trade in services* is somewhat lower than it was in 2002, with a deficit of around US$ 13.5 billion. Although transport costs have risen because of higher fuel prices and insurance costs, tourism revenues have also climbed as this activity recovers from its 2002 downturn. This industry is especially important in the Central American and Caribbean countries, whose surplus on the services trade account has risen by 23% in 2003. The boom has been driven by a larger flow of tourists from European countries, thanks to the increase in the euro's purchasing power. There has also been a modest increase in tourists from the United States, who had reduced their visits to the Caribbean and Central American countries by 2% and to South America by 11% in 2002. This upswing has been the strongest in the Dominican Republic, where activity in this sector has increased considerably in 2003 owing to the greater numbers of both European and United States tourists visiting the island.

Intraregional trade[11] is showing signs of a recovery as well, as it has expanded by a rate similar to the growth rate for total exports (see figure 11). In Latin America and the Caribbean as a whole, intraregional exports account for 15% of total exports this year; this is very similar to the average for 2002 and is still below the 1997 level, when they exceeded 21% of the total. The greatest increase has been in trade within MERCOSUR (21%), owing to the upswing in the exports of all members of this group to Argentina. Trade within the Andean Community, in contrast, has declined for the second consecutive year (-19%), mainly because of the strong contraction of demand in Venezuela. Exports among countries of the Central American Common Market (CACM) are up by 8% and among those of the Caribbean Community countries by 12%.

A surplus is posted on the balance-of-payments current account for the first time in half a century

The current account of the balance of payments for 2003 is showing a positive result for the first time in the last 50 years[12] (see figure 12). The surplus amounts to about US$ 6 billion (around 0.4% of regional GDP) and is accounted for by the MERCOSUR countries, the Dominican Republic and Venezuela (the latter country traditionally has a positive current account balance). In total, these countries have run a surplus of US$ 22.5 billion. A positive balance on the current account is a sign of capital outflows and/or the formation of reserves. Mexico, the Central American counties and the Caribbean (except the Dominican Republic), the Andean Community countries (except Venezuela) and Chile are running a deficit of US$ 16.5 billion.

The regional current account balance has two highly positive components: the *merchandise balance*, at US$ 41.1 billion, and transfers (especially remittances from workers residing abroad), at US$ 33.1 billion (for a total of US$ 74.2 billion). In view of the region's low growth rate, its large trade balance is indicative of a relative weakness in domestic expenditure (consumption and investment), which is reflected in the fact that exports have been the main source of growth in a number of countries. In turn, net transfers have increased by almost 20% this year. Within the current account, the services *trade balance* and the *income balance* (which includes factor service payments, in particular interest on debt, dividends and profits) show a deficit of US$ 68.3 billion, of which US$ 54.8 billion corresponds to factor payments. The size of this latter deficit has become a structural feature of the regional balance of payments and reflects not only the high level of indebtedness but also the scale of payments of dividends and profits generated by foreign companies located in the region. In the absence of autonomous external financing, this constraint implies that other components of the current account need to be adjusted by increasing transfers, reducing imports and/or increasing exports, as has been the case in 2002 and 2003.

Gross external debt has expanded

The gross external debt of Latin America and the Caribbean as of December 2003 totals some US$ 744 billion, which represents a 2.4% increase. This result signals a break with the nominal declines seen in 2001 and 2002. The level of the debt is thus similar to what it was in 2000 (see table A-18 of the statistical annex). The euro's appreciation against the United States dollar has affected all of the economies to some extent, since euro-denominated debts have risen by over 10% during the year. The impact of this change on the individual countries' borrowings depends on how much of their debt has been contracted in that currency. In addition, some countries' debts have climbed because either the

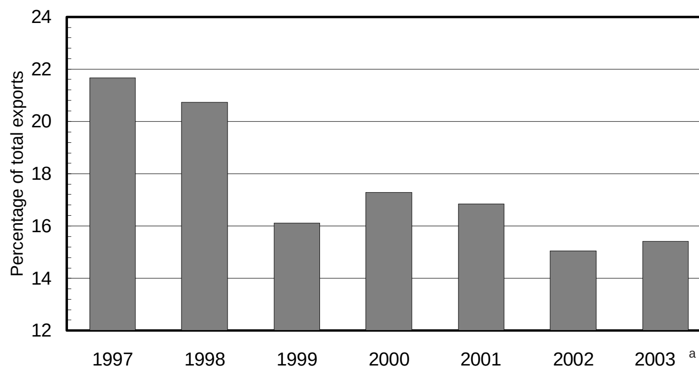
11 Exports of goods destined for other countries in the region, measured as a percentage of total exports.

12 See ECLAC, *Economic Survey of Latin America, 1953* (E/CN.12/358), Santiago, Chile. United Nations Publication, Sales No. 54.II.G.1.

Figure 11

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE

(Percentage of the total value of exports)



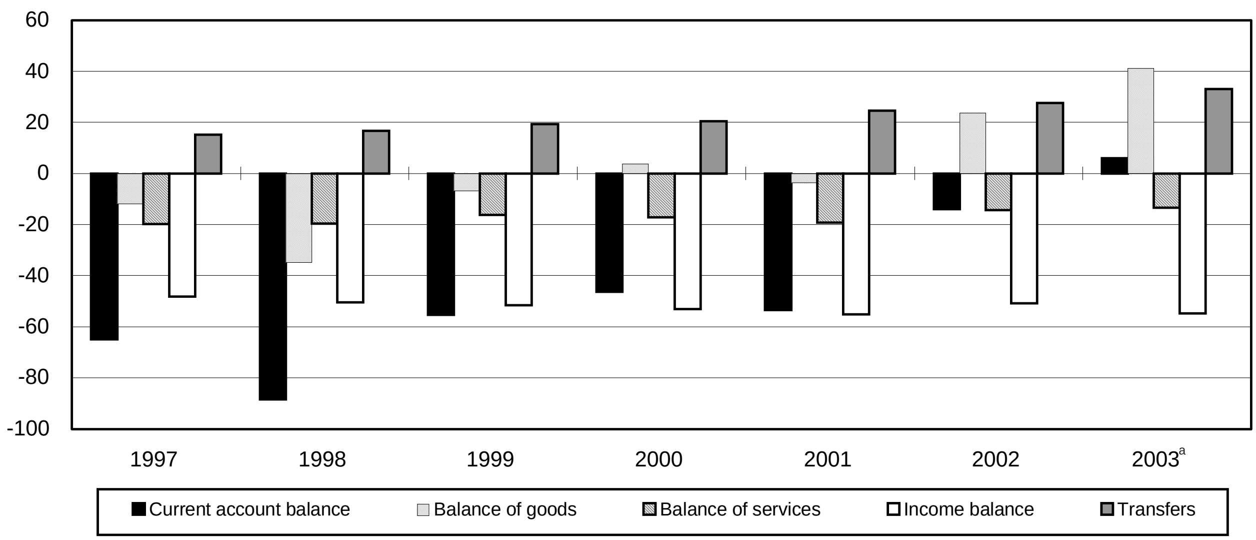
Source: ECLAC, on the basis of official quarterly figures.

[a] Preliminary figures, on the basis of the first three quarters.

Figure 12

LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF THE CURRENT ACCOUNT BALANCE, 1994-2003

(Billions of dollars)



Source: ECLAC, on the basis of official figures.

[a] Preliminary figures.

government or the private sector has taken on more commitments or because of a build-up in public-sector interest arrears.

Although the increase in the external debt has been manageable in the short run, thanks to low international interest rates, the size of the debt is a worrisome structural factor, and the debt's management will become a more difficult proposition if international interest rates and risk premiums rise in the future.

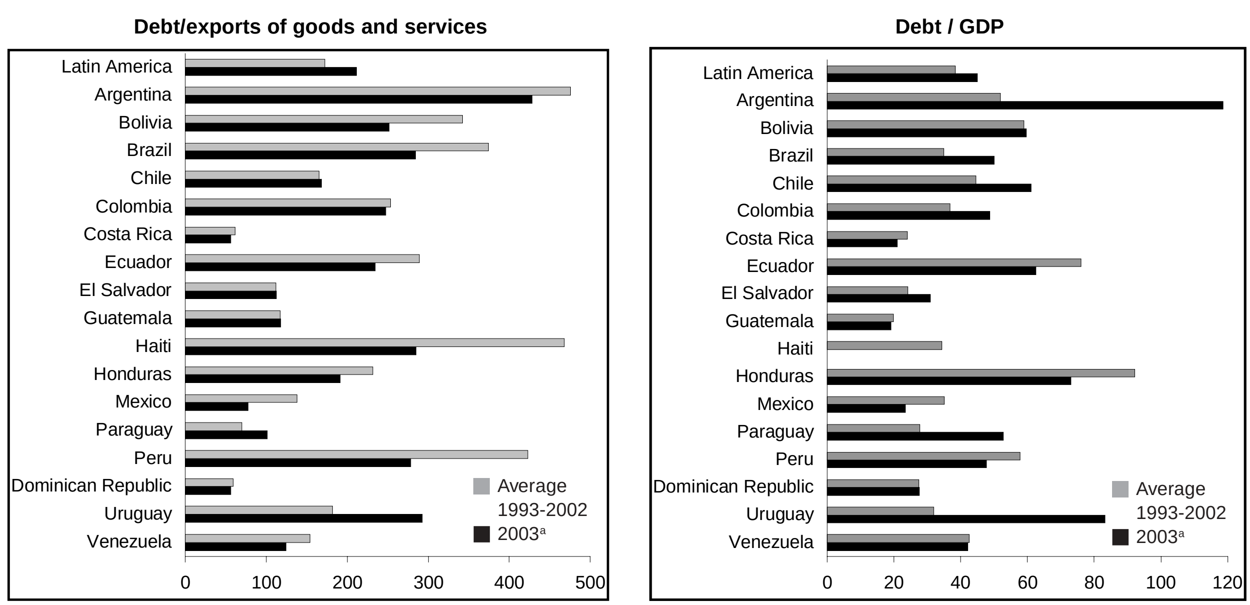
The change in the level of external liabilities amounts to under 2.5% for the year in 13 Latin American and Caribbean countries; in Colombia, Mexico and Venezuela, it actually declined in nominal terms. In some countries, however, external obligations have risen significantly: in the Dominican Republic (13%) and Costa Rica (10%) as a result of government bond placements; in Bolivia (10%) because of increased commitments to multilateral agencies; in Guatemala (9%) owing to a policy of swapping domestic debt for external debt as a means of easing short-term financial pressures; and in Chile (4%) due to an expansion of debt obligations (especially in the private sector).

In more than half of the countries of the region (the countries whose economies are more open than average), the two traditional debt burden indicators have remained within a moderate range. Thanks to the 7% expansion in the region's external sales, the debt burden/exports ratio points to a widespread improvement (see figure 13). In three of the nine most heavily indebted countries (Bolivia, Brazil and Peru), the external debt/GDP ratio stands at around 50%, while the debt/exports ratio, which has been steadily improving over the past five years, is nearly 280%. In contrast, both of these indicators have deteriorated in El Salvador, although its debt coefficients has stayed within moderate ranges.

Given the deferment of the IMF proposal for the establishment of a sovereign debt restructuring mechanism (SDRM) designed to function like a bankruptcy law, the introduction of collective action clauses (CACs) has proved to be a positive development. CACs provide greater certainty both for investors and for governments issuing debt instruments and expedite external debt restructurings, if necessary, by facilitating the dispute settlement process. The use of these clauses in bond contracts allows issuing governments and a qualified majority of bondholders to take decisions that are binding upon all the creditors participating in the issue.[13] Such a majority may impose the conditions of a restructuring agreement upon the rest, either before or after default. In addition, these provisions make it possible for a qualified majority of bondholders to prevent individual creditors from taking prejudicial legal action after a default has occurred but before a restructuring agreement has been finalized. The Governments of Belize, Brazil and Mexico have included such clauses in the bond contracts they have issued in 2003. These provisions were also included in Uruguay's debt swap.

In May 2003, the Government of Uruguay conducted a sovereign debt swap with its creditors. The authorities proposed a "friendly" swap to these creditors, with IMF consent, providing for a five-year deferral of the sovereign bond maturities while retaining the original contract currency and with no reduction in capital or interest. The proposal included a group of creditors holding bonds having a face value of US$ 5.2 billion

Figure 13
LATIN AMERICA AND THE CARIBBEAN: GROSS EXTERNAL DEBT INDICATORS
(Percentages)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.

13 See International Monetary Fund (IMF), *IMF Survey*, 2 June, 2003.

(US$ 3.5 billion in external securities and the balance in domestic securities). The great majority of creditors accepted the proposal in May, thereby easing the debt servicing burden for the coming years. The loans held with multilateral financial institutions are not covered by this agreement, and their original terms and conditions have been maintained.

In 2003, Argentina's external debt has grown by 4.6%, mainly because of the build-up of interest arrears. As of year's end it stands at some US$ 140 billion. Since early 2002 the government has maintained its unilateral moratorium on the servicing of its external debts with private creditors, but it has continued to meet its obligations to multilateral lenders. The amortization and payment of interest arrears on the external public debt need to be restructured so that its servicing will be sustainable over the medium and long terms. In September, the government proposed an external debt swap involving the rollover of US$ 87.05 billion in bonds, with a 75% reduction in face value. The agreement would, in principle, also have to include the refinancing of interest arrears at a rate below 5%. Creditors' initial reaction to the proposal has not been favourable.

Box 1

PROGRESS IN TRADE NEGOTIATIONS AND INTEGRATION

In 2003, the Latin American and Caribbean region has played an active role in various rounds of trade negotiations.

First, in the multilateral arena, the Fifth Ministerial Meeting of the World Trade Organization (WTO) was held in Cancún in mid-September. This meeting failed to produce results owing to obstacles that blocked progress in the negotiations on agricultural items and to the reservations of some developing countries with regard to negotiations on what are often referred to as the "Singapore issues": trade and investment, competition policy, transparency in government procurement and trade facilitation. The Doha round of WTO negotiations is expected to continue, although it may be extended beyond the agreed deadlines.

In the sphere of extraregional negotiations, Chile passed a milestone in 2003 when it consolidated its trade policy with the ratification of the Free Trade Agreement with the United States, which will enter into force on 1 January 2004. The Central American countries also held various rounds of trade talks with the United States which are expected to lead to the conclusion of a free trade agreement in the near future. The main benefit for these countries will be the consolidation of a growth strategy geared towards boosting exports and attracting investment. In fact, albeit with differing results, most of the Central American countries have followed such a course since 1984, when the United States granted them tariff preferences under the Caribbean Basin Initiative. These negotiations have sparked reactions in particularly sensitive sectors in Central America, such as the dairy, grains, meat and sugar industries, while in Costa Rica, complex negotiations have been held regarding the telecommunications sector.

At the end of 2002, the United States extended the Andean Trade Preference Act (ATPA) by converting it into the Andean Trade Promotion and Drug Eradication Act (ATPDEA). The Trade Representative of the United States also announced his country's interest in negotiating a free trade agreement with the Andean countries.

As for the Free Trade Area of the Americas (FTAA) initiative, the Eighth Ministerial Meeting, held in Miami in November 2003, broke with the "single undertaking" principle, according to which all issues would be negotiated as a block. Instead, a mixed plan was defined in which the countries will accept shared obligations on a series of issues but will have the option of engaging in bilateral or multilateral negotiations concerning other subjects. Although this solution will permit the negotiations to be formally concluded by the agreed deadline, the fragmentation of the negotiating agenda could be detrimental for countries with relatively less bargaining power.

The negotiations between MERCOSUR and the European Union have proceeded on schedule in 2003. An agreement is expected to be signed in May 2004 in Mexico at the European Union-Latin American and Caribbean Summit of Heads of State and Government.

In intraregional negotiations, both MERCOSUR and the Andean Community issued formal statements (the Brazilian proposal "Goal 2006" and the Quirama Declaration, respectively) regarding their determination to strengthen the integration processes in which they participate. In some cases, this involves adding new issues to the integration agenda, such as macroeconomic coordination, asymmetries, sustainable development, cross-border integration and a strengthening of ties between the two subregions and between them and the rest of the region. These declarations bear witness to a clear political will to extend the regional integration process by adopting effective measures that give priority to subregional investment and trade and that generate greater economic, regulatory and institutional convergence among the economies involved.

The CARICOM countries have succeeded in maintaining a consistent position in the various arenas by coordinating their negotiations through the Caribbean Negotiating Machinery.

3. Macroeconomic policy

In a context of low economic growth rates, the region's fiscal policy has been aimed at increasing the governments' primary surpluses, rather than at stimulating demand. The primary balance of the region has improved by nearly one percentage point, moving from a deficit of 0.3% of GDP to a surplus of 0.6%.

In the sphere of monetary policy, the countries' central banks have focused on controlling inflationary pressures. Initially, the authorities raised the rates and restricted liquidity. Once inflation had eased, they paved the way for a decline in interest rates and adopted a more active policy stance in an effort to reverse the business cycle.

Consequently, both fiscal and monetary policies had only limited degrees of freedom for the attainment of countercyclical effects.

Most of the countries have consolidated their use of more flexible exchange-rate regimes and have been phasing out restrictions on foreign-exchange operations. At the end of the first 10 months of 2003, the average effective exchange-rate index showed a slight depreciation (2.6%) in relation to the end of 2002.

Fiscal policies

Fiscal policies in 2003 have focused on deficit reduction, and the outlook for 2004 is much the same

In 2003 the countries of the region have continued to implement policies aimed at improving their fiscal balances. The central governments of Latin America and the Caribbean are posting primary surpluses averaging 0.6% of GDP this year, as compared to a deficit of 0.3% in 2002. Given the measures currently in place, this trend is likely to continue in 2004, with primary surpluses equalling or bettering their 2003 levels. This bears out the projection made in the *Economic Survey of Latin America and the Caribbean 2002-2003* that, despite the recessionary climate, fiscal policy was not going to be used to spur economic activity. Most of the countries have focused attention on their high levels of public debt and the need to secure short-term financing. Accordingly, they have tightened fiscal policy and taken steps to prevent public finances from fuelling an expansion of the primary money supply –even though growth has remained weak in 2003 and expectations uncertain.

Many countries have taken effective steps to control primary expenditure and concomitantly boost public-sector revenues. As will be discussed below, Governments have also promoted reforms aimed at enhancing their fiscal solvency over the longer term. It thus comes as no surprise that use of the public budget as a countercyclical tool has been relegated to a secondary role, given the need to tackle structural problems stemming from high levels of public debt and financing constraints. The difficulties involved in using fiscal policy to smooth the business cycle have been pointed out in the past by ECLAC and are a characteristic trait of the Latin American economies, except for Chile. In the other countries, the main thrust of fiscal policy has been dictated by their limited access to financing, particularly from external sources.

Against this general backdrop however, conditions have varied somewhat from one subregion to the next. Having weathered the most difficult situation in all of Latin America the year before, the MERCOSUR economies have made gradual improvements that are reflected in their fiscal performance for 2003. **Argentina** provides the clearest illustration of this. The rapid growth it has achieved this year has helped rebuild tax revenues; and the Government's decision to maintain the tax on agricultural exports introduced in 2002, and refrain from adjusting income-tax assessments in line with inflation, has also helped to boost receipts. This has been complemented by a policy of keeping State spending at national level on a tight rein, as clearly exemplified by the federal government's rigid wage policy. In tandem with the suspension of its public debt service payments, the Government has taken over the provinces' debts and renegotiated their maturities, which has helped restore the public finances of those federal units during the current year. The three-year arrangement signed between Argentina and IMF in September includes basic short-term fiscal-policy definitions and lays down guidelines for structural reforms in public finances, especially in social-security and revenue-sharing with the provinces. By the end of the year, Argentina will have achieved the fiscal target established in the economic programme for 2003; and a primary surplus of 3% of GDP has been forecast for 2004, during which negotiations to restructure the overdue debt are likely to intensify.

Brazil, in contrast, has been facing a very different situation. In early 2003, amidst prevailing uncertainty concerning its capacity to meet debt-service payments, the new Government decided to tighten its fiscal stance still further. This was specifically aimed at improving public-sector financing at lower interest rates, and restoring the value of the real. Both of these objectives have been achieved; nine months into the year, the public sector was displaying a primary surplus of 5.1% of GDP, thereby fulfilling the targets envisaged in the arrangement made with IMF in late 2002. This greater room for fiscal manoeuvre, in conjunction with exchange-rate appreciation, has helped reduce the net public-debt burden, which is now expected to stabilize around 57% of GDP. The improved fiscal outturn, supported by other components of the programme, has also made it possible to finance repayments falling due during the year with a significant reduction in the sovereign-risk premium. The fiscal effort has focused on containing expenditure, particularly public-sector wages. At the same time, the Government has proposed drastic changes to the pension regime covering public-sector workers, which was perceived as an unfair and costly system; and it has made reforms to the taxation of consumption. Once approved by Congress, these two measures are expected to further improve the fiscal balance. The Government has announced a one-year extension of its current programme with IMF, which opens up the possibility of obtaining additional funding. The goal of fiscal policy is to achieve a primary result similar to the 2003 figure, since the federal government balance continues to be a key variable in the financing strategy.

Having been one of the economies of the subregion to suffer most as a result its close commercial ties with the larger MERCOSUR partners, and in particular, its exposure to financial flows from Argentina, **Uruguay** embarked upon a recovery in 2003. Whit in the framework of an agreement reached with international agencies, the country completed a successful public-debt swap –with a participation rate of 93%– involving a rescheduling of maturities that will reduce debt service during 2003-2007 by over 80%. The operation also generated an estimated 20% reduction in the net present value of public-sector liabilities. Despite the importance of this swap deal, consolidation of public finances requires a primary surplus of around 3% of GDP to be sustained –a target that is just over one percentage point above the figure likely to be achieved in the current year. The tax reform designed by the Government and approved by Parliament in 2003 is intended to raise additional funding by simplifying and rationalizing the system. Although Uruguay is expected to continue accessing capital markets, multilateral agencies (especially IMF) are likely to provide the major source of government financing. Fiscal policy in 2004 will be dominated by this target, as explicitly established in the current programme with the Fund, which is due to expire in March 2005. Measures to control current expenditure will probably have to be maintained in 2004, and the Government will aim at setting utility rates to ensure the generation of a cash flow surplus of public enterprises compatible with the fiscal programme. This scenario will provide a backdrop for the presidential elections to be held in October next year.

Paraguay has improved fiscal results in 2003: the central government deficit is expected to approach 1% of GDP, which means a reduction of over two percentage points compared to the 2002 figure. After the new Government had taken office, in October it reached agreement with parties represented in parliament on six legal bills aimed at enhancing economic management. On the fiscal front, as the year draws to a close, an extensive and far-reaching tax reform is currently making its way through the legislative process. This involves an expansion of income tax and VAT, the application of specific taxes and simplification of the system, among other items. The measures also include pension reform aimed at saving resources and correcting distortions that mainly affect the regime covering public-sector workers. Approval of these bills, supported by strict expenditure management, should help strengthen fiscal results. Alongside other macroeconomic decisions, in 2004 Paraguay will implement a standby arrangement with IMF, which is currently in an advanced state of negotiation. Targets for the primary surplus are expected to be established that will make it possible to reduce the public debt, the level of which has doubled over the past four years. The arrangement with IMF will also free up funds from IDB and the World Bank, which are needed to rectify the country's overdue position with both institutions, and to address financing needs for 2004.

In contrast, there are several countries in the Andean subregion that display a more complex fiscal situation. In **Bolivia**, the non-financial public-sector deficit is expected to come in at 9% of GDP this year. The political crisis killed off several of the measures with which the Government had been striving since the start of the year to meet a fiscal-deficit target of 6.5% of GDP. The scenario in 2004 will be dominated by the need to reduce the deficit and find funding sources for the public sector. Nonetheless, as grants and concessional multilateral funding are insufficient at their current levels, the public-sector deficit is putting pressure on domestic sources. To achieve the target, increased revenue from hydrocarbons, elimination of tax breaks, and cutbacks in current expenditure will be needed. Recovery in Brazil will help in this regard by boosting sales of Bolivian natural gas to that country. Nonetheless, a comprehensive programme will also be needed to address structural factors that have put public accounts out of balance, such as the cost of the 1997 pension reform, loss of hydrocarbons revenues and the lack of alternative income sources contributed by the tax system. Meanwhile, during the coming months the Government will face the challenge of building internal consensuses to make it possible to implement a programme that is both viable and deemed eligible for financing by the donor community and multilateral institutions.

Another country where fiscal policy has been at the centre of economic and political debate during 2003 is **Colombia**. Since the middle of last year, the authorities have adopted a variety of measures aimed at bringing the deficit under control and thereby reduce the level of public debt, which has surged from 30% to 55% of GDP since 1996. Starting in January this year when a two-year arrangement was signed with IMF, the Government established a fiscal programme for 2003 that aims to limit the global consolidated public-sector deficit to 2.5% of GDP. This target means improving the primary result by 2.3 percentage points of GDP compared to the 2002 figure, with nearly all the improvement coming from the expenditure side. The Government has proposed various policies aimed at attaining this goal, including a wage freeze and budget cuts; it has also recognized the need to correct structural imbalances in public finances originating primarily in public pension systems –in particular, the special regimes covering teachers and military personnel. These issues, along with a number of political reforms, were put to the vote in a constitutional referendum in October, but failed to gain the necessary support. This setback makes it even more urgent to approve compensatory measures to make it possible to meet the fiscal targets for 2004, which envisage a primary balance similar to the current year's figure. Several of the actions proposed require parliamentary approval, which will entail negotiations. The Government also plans to implement similar expenditure restraint policies, supported by higher levels of taxation (income tax, wealth tax and VAT).

A very different situation obtains in the subregion's two main oil countries, **Ecuador** and Venezuela. The first of these has been using fiscal policy as a tool to reduce its public debt. Fiscal efforts in 2003 have focused on generating a public-sector primary surplus equivalent to 5.2% of GDP –nearly one percentage point higher than that achieved in 2002– in the framework of an IMF programme signed in March. Preliminary projections suggest that actual performance will fall slightly short of the 2003 target, however. During the year the Government has implemented a variety of measures to achieve the established goal, including hikes in fuel prices and other charges, making use of surplus funds from social security, reducing transfers to the regions, and imposing wage restraint. Oil revenues have undershot their forecast levels, because the gains obtained through higher prices have failed to compensate for the drop in production. The Government has also adopted a number of structural measures: it promoted reforms to the public employment regime, which gained legislative approval; and it designed a tax reform that took a long time to pass through Congress and in the end is likely to be revenue-neutral. The fiscal programme for 2004 aims to achieve a further one-point increase in the primary surplus; but the chances of achieving this will depend on increasing oil production, which in turn requires additional investments to be made in the sector.

The fiscal situation in **Venezuela** during 2003 has been disrupted by the political conflict that paralyzed production by Petróleos de Venezuela S.A. (PDVSA), causing a corresponding drop in revenue. The Government has tried to make up for this situation through taxes on bank debits and alterations to VAT; and public-sector wages have been raised only moderately, without fully compensating for the loss of purchasing power caused by higher inflation. The final outturn for the year as a whole is likely to be broadly the same as in 2002. The global public-sector deficit, of around 3.5% of GDP, has been funded through domestic debt issues, drawing on resources from the Macroeconomic Stabilization Investment Fund, and inflation tax (in particular, exchange-rate differences have generated profits for the Central Bank which have been transferred to the Treasury). In this respect, the Venezuelan case differs from general patterns in the region. Although the fiscal panorama for 2004 would become easier if oil output were to recover, the political and economic situation could conspire against this by putting pressure on expenditure, reducing domestic funding sources and limiting seigniorage possibilities.

The fiscal programme in **Peru** during 2003 has continued to pursue the goal set in the previous year, namely to reduce the level of public indebtedness (47% late this year) through sustained and gradual generation of a primary surplus. In fact, the projection for the year envisaged at a primary-balance target of 0.2% of GDP for the consolidated public-sector, which implies a slight improvement over the zero balance reported in 2002. The key instruments underpinning the programme are structural, such as tax reform, budgetary policy rules, and a decentralization strategy that is intended to be fiscally neutral, but also accompanied by strict management of current spending. Despite expenditure overruns, Peru should be able to achieve its fiscal-programme targets this year by adopting corrective measures. In 2004, policies announced and those already in place involve consolidating the course already described, in the framework of the standby arrangement with IMF, which is about to complete two years of life and will conclude next February.

Lastly, the case of **Chile** diverges sharply from the rest of the regional scenario. In a framework of solvent public finances, fiscal policy in 2003 has adhered strictly to the principles established by the structural surplus rule (1% of GDP). In keeping with this, expenditure cuts have been implemented, along with a temporary one-percentage-point increase in the VAT rate as from October. For 2004, predictions of stronger economic growth and better copper prices foreshadow a reduction in the deficit. No obstacles are foreseen regarding application of the long-term fiscal guidelines; and, at the structural level, Chile will continue to make progress in adapting its tax system to the burgeoning trade-integration process.

At the opposite geographic extreme of Latin America, the fiscal situation in **Mexico** is trending positively. The country has been achieving primary surpluses of between 2.5% and 2.0% of GDP, thereby facilitating management of maturities and costs on its public debt, the level of which is currently below the regional average. In this context, the 2003 fiscal programme has been implemented without major obstacles; the global deficit target of 0.5% set at the start of the year has been achieved, and it has been financed almost entirely in the domestic market for the fourth year in a row. Although non-oil tax revenues have been undershooting expectations, this has been offset by the fact that crude oil prices have turned out higher than projected in the budget, thereby helping to restore fiscal balance. On the reform front, the Government is promoting a generalization of VAT at 11%, with a lower rate for food and medicines, and reduction of the top rate of income tax, which will jointly produce a net yield equivalent to 1% of GDP. As this proposal has not yet been approved, the Government has designed an expenditure budget for next year which is consistent with currently authorized funding levels. The fiscal situation in 2004 is thought unlikely to change, and the corresponding adjustments will be made to the federal budget, as and when the reform is approved.

The Central American economies display a variety of situations, on which a number of specific comments can be made. **Costa Rica** is ending the year with a consolidated deficit of 4.1% of GDP –one percentage point higher than the target set at the start of the year, despite the fact that economic activity has grown rapidly. This fiscal-account situation will probably have to be reviewed in the coming year when the growth scenario is unlikely to be as dynamic as in 2003. **Guatemala** has kept its public finances under control, thereby enabling it to achieve the objectives set in the economic programme agreed with IMF; and the pattern is expected to continue in 2004. In contrast, the two countries of the subregion eligible for inclusion in the Heavily Indebted Poor Countries (HIPC) initiative –**Honduras and Nicaragua**– are currently running large fiscal deficits (5.8% and 6.9% of GDP respectively). Given the interest of both countries in qualifying for access to the benefits

Table 3
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS [a]
(Percentages of gross domestic product at current prices)

	Primary balance		Global balance		Public debt [b]
	2002	2003[c]	2002	2003[c]	2002
Latin America and the Caribbean [d]	**-0.3**	**0.6**	**-3.0**	**-2.4**	**67.0**
Argentina [e]	1.8	1.8	-0.3	-0.2	134.4
Bolivia [f]	-7.1	-3.7	-9.2	-6.6	82.9
Brazil [g]	2.3	2.5	-0.3	-1.1	52.6
Chile	-0.5	-0.3	-0.8	-0.8	15.8
Colombia [g]	-1.0	-0.3	-4.9	-4.7	49.2
Costa Rica	0.0	1.4	-4.3	-2.8	38.6
Ecuador	2.6	2.1	-0.8	-0.9	55.6
El Salvador	-1.6	-0.3	-3.1	-2.1	41.5
Guatemala	0.3	-0.4	-1.0	-1.6	17.2
Haiti	-2.3	-3.0	-3.1	-4.0	52.8
Honduras	-3.3	-3.7	-5.2	-5.8	70.5
Mexico	0.8	2.0	-1.8	-0.6	20.4
Nicaragua	1.6	2.8	-4.1	-2.3	329.9
Panama	2.7	2.7	-2.4	-2.6	82.9
Paraguay [i]	-1.7	0.0	-3.3	-1.0	42.4
Peru	-0.2	0.1	-2.2	-1.9	47.2
Dominican Republic	-1.3	1.9	-2.2	-0.4	20.9
Uruguay [j]	0.0	3.0	-4.6	-3.6	82.1
Venezuela	1.0	1.9	-3.3	-3.0	35.6

Source: ECLAC, on the basis of official figures.
[a] Includes social security. [b] Debt figures correspond to the public sector; except in Chile, Costa Rica, El Salvador, Honduras and Peru where the coverage corresponds to central government. [c] Preliminary estimate. [d] Simple average. [e] National administration. [f] General government. [g] Federal government. [h] National central government. [i] Central administration. [j] Public sector.

of this debt-relief programme, deficit-reduction policies can be expected for the coming year. In **El Salvador**, the public-sector deficit is projected at 3.5% of GDP, representing a one-percentage-point improvement in relation to the 2002 figure. In a dollarized economy, where per-capita growth has been virtually non-existent, fiscal policy is focused on reducing the public-debt burden. Public finances in **Panama** do not display any major problems, although the presidential elections scheduled for May next year will probably put additional pressure on the budget.

To conclude this overview of the region's fiscal policies and their most salient features during the year, special mention should be made of the situation in the **Dominican Republic**. The severe crisis affecting this country has significant fiscal dimensions with effects in the short and medium terms. Interventions in the financial system have been costly, and the public debt has soared to 45% of GDP, compared to 26% in 2002, in the wake of quasi-fiscal losses. At the end of August, when the standby arrangement was signed with IMF, the authorities were predicting a central-government primary balance of 1.9% of GDP, which meant reversing the result achieved in 2002 by 3.3 percentage points in a year of declining economic activity. To achieve this, the Government a promised a number of emergency measures, including expenditure cuts, temporary increases in import tariffs, taxation of bank debits and higher tax rates on consumption. In practice, several exceptional measures have been implemented to boost revenue, but expenditure cuts have only been partially applied. In addition, soon after the program began, the Government decided to re-nationalize the electric-power sector. Although there are plans to re-privatize these assets, the Government's action was not envisaged in the terms of the agreement signed in August. In this complex setting, during the closing months of the year the authorities and IMF have been reviewing implementation of the original programme and alterations that will need to be made to it. It is therefore not surprising that fiscal policy for 2004 is focused on the need to attain primary surplus targets similar to those established for this year. The Dominican Republic has US$ 800 million in public debt falling due in 2004 (both multilateral loans and bonds), and servicing this will require an understanding to be reached with the creditor institutions. Presidential elections are scheduled for the middle of the year.

In synthesis, and focusing now on predominant trends in the region as a whole, fiscal policy in 2003 and the outlook for 2004 have both been marked by the need to reduce debt levels, paying special attention to public-sector financing needs, among other macroeconomic constraints. The over-riding objective is to achieve the primary surplus target; so countries are applying conventional measures to restrain expenditure and increase revenues, in conjunction with a wide range of structural decisions which, one way or another, are aimed at improving the long-term solvency of public finances. This task is easier in countries whose economies are in a more expansionary phase of the cycle. As mentioned above, there are several exceptions to the general picture described here: Chile has room for manoeuvre to manage its fiscal policy in countercyclical fashion; Venezuela does not fit prevailing patterns of the region for the reasons discussed above; and lastly, given the complexity of the current situation, fiscal policy in the Dominican Republic and in Bolivia will need to solve critical financing problems in 2004.

Exchange-rate policy

1. Regional panorama

By the end of the first 10 months of 2003, the currencies of Latin America and the Caribbean had appreciated in real terms against the United States dollar.[14] On average, the currencies of the region revalued by 3.3% in a context of lower exchange-rate volatility. A different result –of opposite sign– is obtained from a review of the variation in the real effective exchange rate[15] in recent months, which reveals a 2.6% depreciation as compared to the levels registered at the end of last year. This depreciation in the countries' effective exchange rates is closely linked to the fact that the euro and the Asian currencies have risen in value against the dollar and, to a lesser extent, against the currencies of the countries of the region as a group.

Moving beyond this short-term development to a longer-term perspective, it can be seen that current levels are 18% higher than the average recorded between 1997 and the end of 2001 (see figure 14). However, as indicated below, the pattern of these two indicators has not been homogeneous for all the countries in the region, and a more in-depth analysis is therefore required.

In terms of exchange-rate developments, two geographically differentiated situations may be identified

An initial classification of exchange-rate patterns in 2003 indicates that the countries of Latin America and the Caribbean fall into two different groups: on the one hand, South America (see figure 15) and, on the other, the countries of Central America, the Caribbean and Mexico (see figure 16), although the situation is not entirely homogeneous within each group.

An examination of South America over the relevant period indicates that the real exchange rate against the United States dollar and the effective exchange rate have behaved differently. In recent years, the currencies of this part of the region have recorded significant depreciations and appreciations against the dollar. However, the effective exchange-rate curve has followed a smoother trajectory. These differentiated patterns are linked to the fact that the countries in this group have been influenced by similar movements and, in a sense, have been exposed to similar shocks. Furthermore, given the magnitude of intraregional trade, effective exchange rates fluctuate much less.

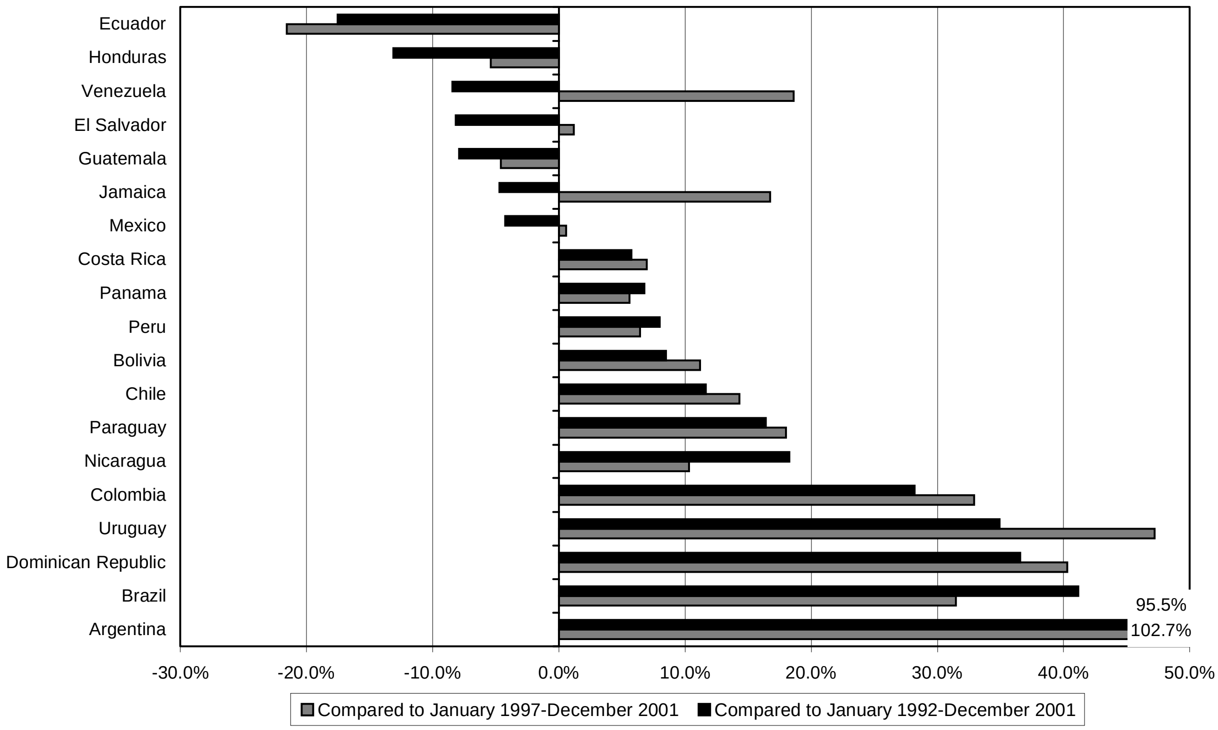
In addition, a review of exchange-rate trends in 2003 indicates that all the countries except Bolivia and Venezuela have recorded real appreciations of their currencies against the dollar, with the average for the group being 7.5%. Special reference should be made to the case of the MERCOSUR countries, which have witnessed a change in trend since 2002, when they had recorded sharp real depreciations.

The appreciation of the effective exchange rate, as shown in figure 15, is was 1.6%. Four countries in this group (Argentina, Brazil, Chile and Paraguay) have

14 The nominal exchange rate vis a vis a foreign currency is understood as the amount of units of the local currency that must be handed over at a given point in time in exchange for one unit of the foreign currency. A local currency depreciates/appreciates in nominal terms when, at a given point in time, more/fewer units of that currency must be given in exchange for one unit of foreign currency as compared to a specific reference period. The real bilateral exchange rate index with respect to a foreign currency (for example, the dollar) is calculated by deflating the nominal exchange rate by the ratio of the inflation rate in one country to that of the other (in the case of the dollar, the United States). A currency depreciates/appreciates in real terms when the real bilateral exchange rate rises/falls.

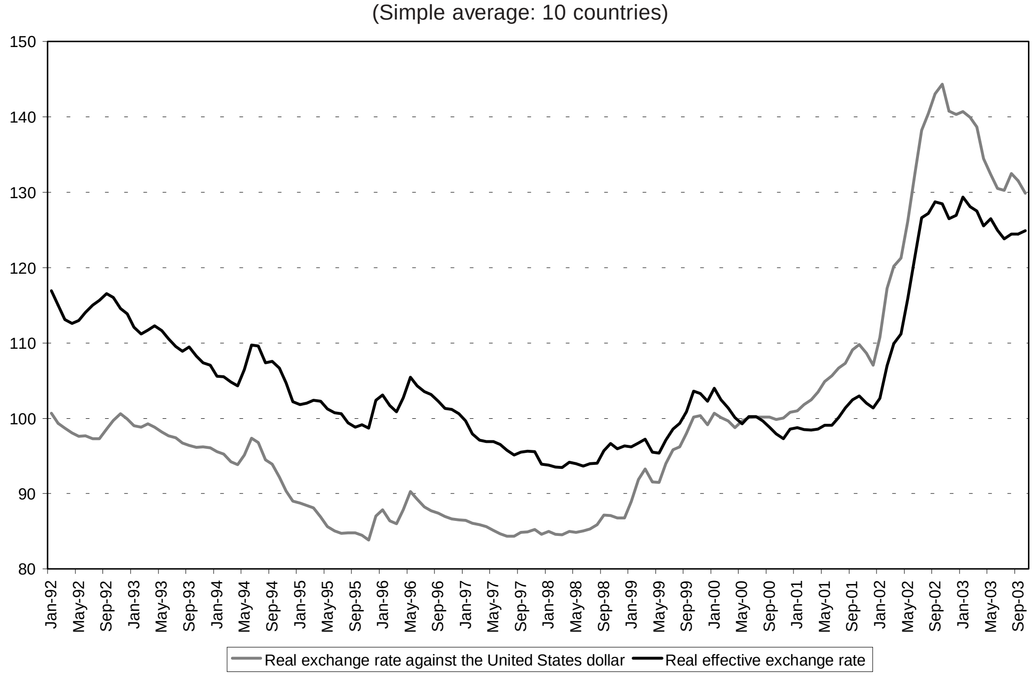
15 The real effective exchange-rate index is calculated by weighting the indices of the real bilateral exchange rate with each trading partner by the share of trade with this partner as a percentage of the country's total trade (of exports or imports, as appropriate). In this case, the average real effective exchange rate for exports and imports is used. A currency depreciates/appreciates in real effective terms when the respective index rises/falls.

Figure 14
LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE VARIATION OF THE REAL EFFECTIVE EXCHANGE RATE
(October 2003 compared with historical averages)



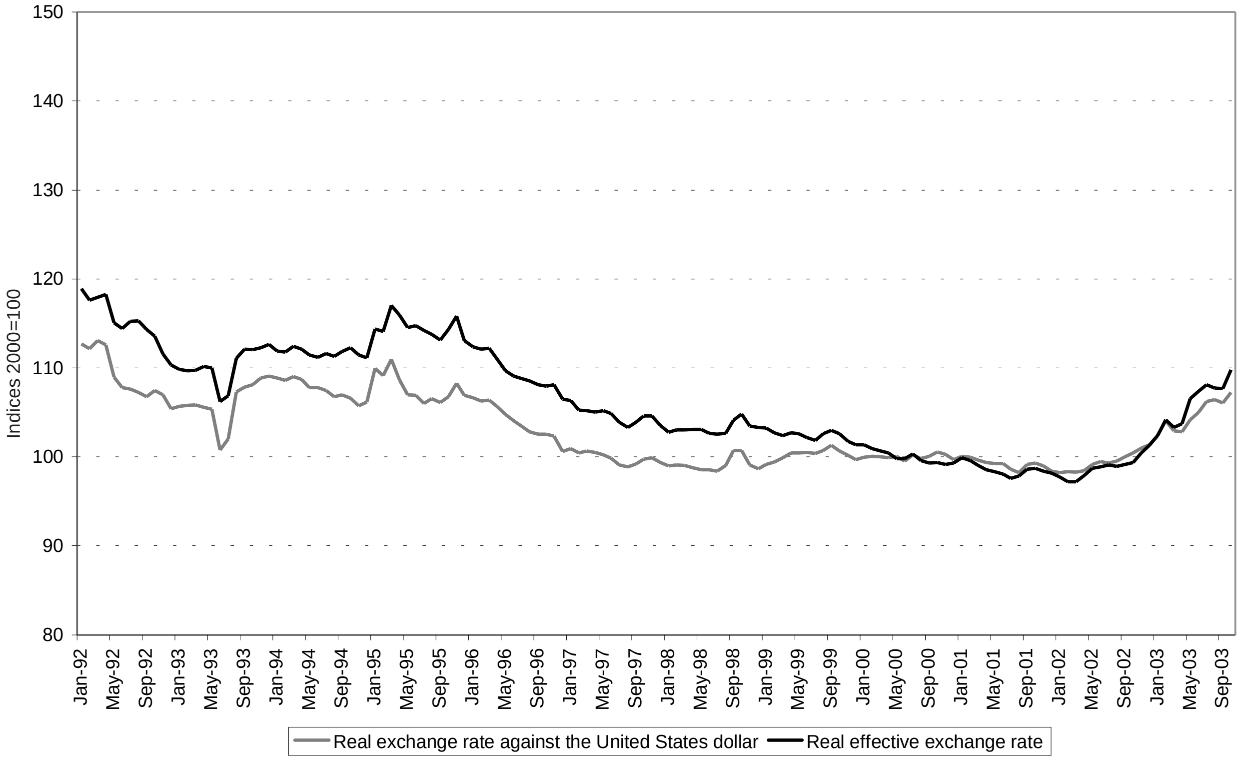
Source: ECLAC, on the basis of officials figures.

Figure 15
SOUTH AMERICA: REAL EXCHANGE-RATE MOVEMENT
(Simple average: 10 countries)



Source: ECLAC, on the basis of officials figures.

Figure 16
CENTRAL AMERICA, MEXICO AND THE CARIBBEAN: REAL EXCHANGE-RATE MOVEMENT
(Simple average: 9 countries)



Source: ECLAC, on the basis of officials figures.

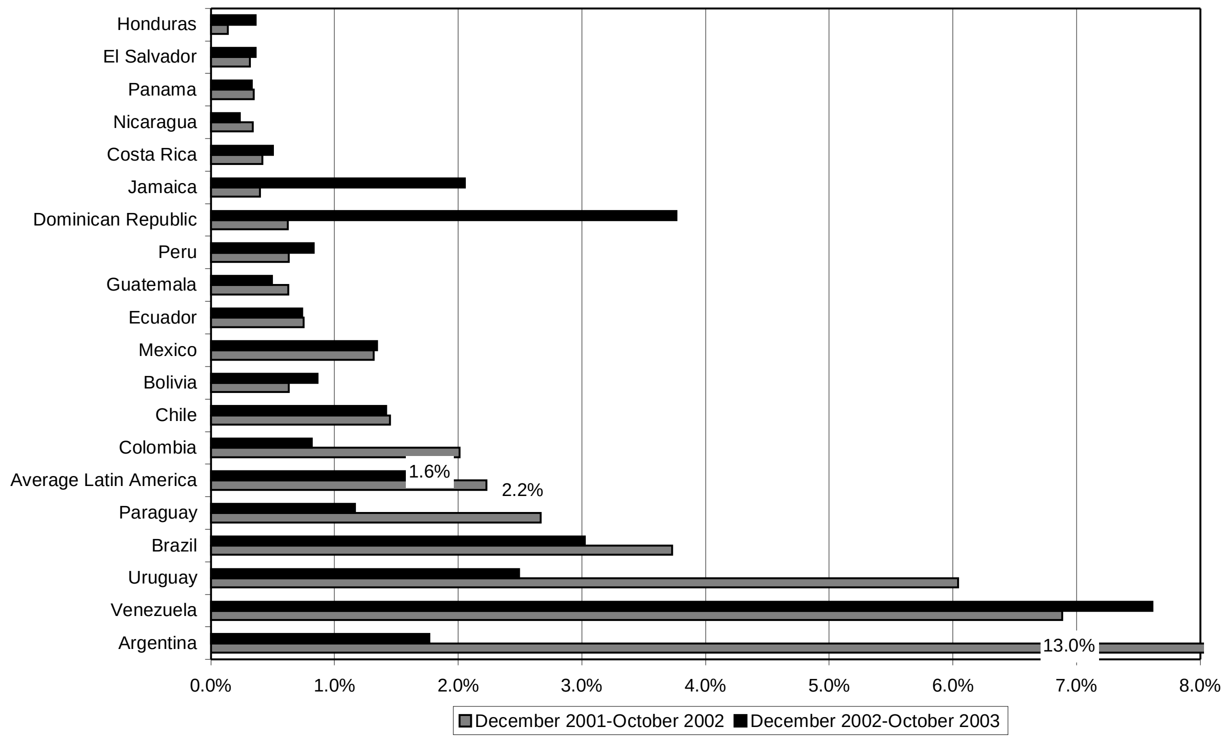
registered an effective appreciation of their currencies, mainly because of the extent of their real appreciation against the dollar. The opposite has occurred with the other South American currencies, which have undergone effective depreciations. This performance reflects the fact that the real appreciations against the dollar have been limited and that the currencies of these countries' trading partners have strengthened considerably against the dollar. This is the case, for example, in Uruguay.

The second group, which encompasses the rest of the region (Central America, Mexico and the Caribbean) and is more dependent on trade with the United States, has recorded on average a real depreciation of 5.8% against the dollar and an even larger real effective depreciation (8.4%). This is clearly illustrated in figure 16. If this group is broken down into geographical subgroups, it may be seen that real exchange-rate trends in relation to the dollar have differed in each one of them. In Central America, real exchange-rate movements against this currency have generally been limited. In the Caribbean, exchange-rate patterns have been heterogeneous, since the situation in countries such as the Dominican Republic and Jamaica has led to sharp depreciations of their currencies, Haiti has seen a strong real appreciation against the dollar, and the currency of Trinidad and Tobago has also strengthened. The Mexican peso has lost value in real terms against the dollar. In terms of the real effective exchange rate, Haiti is the only country in this group to register a marked appreciation, reflecting a considerable real increase in its currency's value against the dollar and the fact that the United States is its most important trading partner. Figure 16 also shows the high level of the exchange rate (depreciation) at the close of 2003 in the countries that make up this group, with the values approximating those of mid-1996. It also indicates that the movements in their real exchange rates against the dollar and their effective exchange rates are almost parallel, owing to the fact that the United States figures so prominently in these countries' total trade flows.

Exchange-rate volatility in the region subsides

As shown in figure 17, average real effective exchange rates in the region have been less volatile than in 2002.[16] In particular, volatility has abated considerably in 2003

Figure 17
VOLATILITY OF THE REAL EFFECTIVE EXCHANGE RATE
(Standard deviation of absolute monthly variations in each country)



Source: ECLAC, on the basis of officials figures.

in the four MERCOSUR countries (especially Argentina) and Colombia, while it has increased significantly in the Dominican Republic and Jamaica. In the case of Venezuela, the decision to peg the exchange rate to the United States dollar in February also brought about a significant reduction in volatility with respect to exchange-rate movements from that month onward.[17] In the MERCOSUR countries, the reduction in volatility is associated with the improved performance of their economies and the more encouraging prospects opening up for the subregion following the crises and volatility in expectations experienced in 2002. On the other hand, volatility has increased in the Dominican Republic and Jamaica as a direct result of the problems faced by these two economies.

The fact that foreign-exchange regimes have remained unaltered in 2003, with the exception of Venezuela (see table 4), has also contributed to the greater exchange-rate stability in the region. Venezuela pegged its exchange rate to the dollar in February 2003, following a two-month strike which paralysed the country, and has thus had three different exchange-rate regimes in as many years.

The trend towards flexible exchange rates strengthens

Generally speaking, in the larger economies in the region the trend towards flexible exchange-rate regimes seems to be gaining strength, as well as the use of inflation targeting (Brazil, Chile, Colombia, Mexico and Peru). A number of the smaller countries, however, are maintaining more or less fixed exchange-rate regimes vis-à-vis the dollar or else have adopted this currency as legal tender. In Argentina, the

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16 Volatility was measured by taking the standard deviation of the absolute value in monthly variations in the real effective exchange rate. The January-October variations for 2002 and 2003 were taken for each country, except in the case of Panama, for which January-September figures were used. The average value for the region takes the simple average of the individual volatility measurements for the 19 countries for which data are available. Other volatility measurements yield qualitatively similar results.

17 For the period December 2002-October 2003, the volatility measurement used here registers an increase for Venezuela owing to the sharp variations in the real effective exchange rate that occurred in January 2003. However, other volatility measures that are less influenced by the volatility observed in January 2003 point to a decline in volatility even for the period December 2002-October 2003.

authorities have also recently expressed interest in moving towards a monetary policy guided by inflation targets.

Despite the preference for flexible schemes and for phasing out restrictions on foreign- exchange transactions, monetary authorities continue to closely monitor the evolution of exchange rate markets. A number of factors, including short-term fluctuations, the link between fiscal revenues and export prices, and the dollarization of financial transactions, have led to prudential intervention in the market.

External and domestic factors influencing exchange-rate movements and trends in the different groups of countries

Two of the external factors that have affected real exchange rates in the region in 2003 warrant special mention. First, there is the reversal in the direction of capital flows, which have gone from a large net outflow in 2002 (US$ 14 billion) to a moderate inflow in 2003. This is partly due to the persistence of low interest rates in the industrialized countries given the absence of inflationary pressures, which has led to increased acquisitions of emerging markets assets, including those of Latin America.[18] In view of the financial constraints experienced by the MERCOSUR countries in 2002, this factor has had a strong impact on these countries, especially in the most closed economies of the subregion, namely, Argentina and Brazil. Second, the growing external demand for commodities, in particular in Asia, has significantly boosted the prices of some commodities exported by the region, including oil, soybeans, wood pulp, copper and gold[19] . This factor, however important for

Table 4

LATIN AMERICA AND THE CARIBBEAN: FOREIGN-EXCHANGE REGIMES, 1996-2003[20]

System	1996	1999	2000	2001	2002	2003
Dollarization	Panama	Panama	Panama Ecuador	Panama Ecuador	Panama Ecuador El Salvador	Panama Ecuador El Salvador
Currency board	Argentina	Argentina	Argentina	Argentina		
Other fixed-parity regimes	El Salvador	El Salvador	El Salvador	El Salvador		Venezuela
Crawilng peg	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua	Bolivia Costa Rica Nicaragua
Moving bande	Brazil Colombia Chile Ecuador Honduras Uruguay Venezuela	Colombia Chile Honduras Uruguay Venezuela	Honduras Uruguay Venezuela	Honduras Uruguay Venezuela	Honduras	Honduras
Flexible	Guatemala Haiti Mexico Paraguay Peru Dominican Republic	Brazil Ecuador Guatemala Haiti Mexico Paraguay Peru Dominican Republic	Brazil Chile Colombia Guatemala Haiti Mexico Paraguay Peru Dominican Republic	Brazil Chile Colombia Guatemala Haiti Mexico Paraguay Peru Dominican Republic	Argentina Brazil Chile Colombia Guatemala Haiti Mexico Paraguay Peru Dominican Republic Uruguay Venezuela	Argentina Brazil Chile Colombia Guatemala Haiti Mexico Paraguay Peru Dominican Republic Uruguay

Source: ECLAC.

18 For further information on the pattern of capital flows to the region, see the corresponding section in this edition of the *Overview*.

19 For further information on trends in commodity prices and the demand for regional exports, see the trade section of the *Overview*.

20 El Salvador initiated the formal process of dollarization of its economy on 1 January 2001 with the entry into force of the Monetary Integration Act, adopted by the Legislative Assembly on 30 November 2000. El Salvador is listed in the category “dollarization” in 2002 because the process of dollarization matured during 2002.

Argentina and Brazil, is especially relevant for the most open economies in the region and those whose trade flows are particularly dependent on some of these products.

Real exchange-rate movements have, however, been determined in large part by domestic variables, such as the fiscal situation and monetary policy. In particular, the greater autonomy of some countries in the area of monetary policy management has meant that, once inflationary pressures have been brought under control, their central banks have been able to lower interest rates substantially, thereby helping to avoid major currency appreciations. Based on the combined effects of these two types of factors, and without prejudice to the foregoing analysis, the countries of Latin America and the Caribbean can be divided into three subgroups.

First, there are the countries whose currencies have appreciated sharply in real terms against the dollar. This group includes the MERCOSUR countries (where the appreciation of their currencies during the year reflected, in large measure, the events of 2002), Chile and Haiti. A second group is made up of those countries whose currencies have either depreciated sharply against the dollar or which have resorted to strict exchange controls to prevent them from doing so. This group includes Jamaica, the Dominican Republic and Venezuela[9], where exchange-rate movements have reflected serious macroeconomic problems stemming mainly from domestic factors. The Mexican peso has also depreciated, albeit for different reasons from those of the other countries in this group. The third and last group consists of the Central American countries and the Andean Community (except Venezuela), which have not experienced major real exchange-rate movements.

The following section presents a more detailed analysis of developments in the countries of each group in 2003.

2. Highlights of real exchange-rate trends in selected countries

The first group of countries, which includes those whose currencies have appreciated significantly in 2003, is composed of the MERCOSUR countries, Chile and Haiti.[21] The MERCOSUR countries, whose currencies had undergone considerable and varying depreciations in relation to the dollar by the end of 2002, have displayed a "mirror" image of those trends as they have moved in just the opposite direction in 2003. These movements reflect the influence of a combination of internal and external factors.

During 2003, Brazil's country risk has decreased significantly, partly because of investors' positive perception of the government's economic policy on both fiscal and monetary matters. The reader will recall that the uncertainty surrounding the presidential elections in the second half of 2002 was associated with an increase in country risk and a depreciation of the real in relation to the dollar. Improved expectations during 2003 have been reinforced by the strong performance of the external sector, which, assisted by high export prices, has produced a record trade surplus. This led to a nominal appreciation of 21.1% of the real between December 2002 and October 2003; nonetheless, the real effective exchange rate is 15% above (depreciation) the average values for 1999 (the year that Brazil decided to float its currency).

The external sector's surplus is also a major factor in accounting for the behaviour of the exchange rate in Argentina. Indeed, despite a considerable increase in imports, higher export prices and record agricultural output generated a hefty trade surplus. This has been more than enough to offset capital outflows, which have been substantially lower than during 2002.[22] The central bank's forthright intervention in the exchange market prevented the peso from appreciating in real terms against the dollar even more than it actually did (17.8%) during the first 10 months of 2003. Its effective appreciation (8.6%) was less than its appreciation vis a vis the dollar, mainly because of the above-mentioned rise in value of the euro and the Brazilian real against that currency. During 2003, the government also introduced a minimum stay (reserve requirement) of 180 days for capital inflows as a means of curbing the appreciation of the peso without intervening in the currency market. Generally speaking, the government's policy intention –partly for fiscal reasons and considerations of competitiveness in the tradable goods sector– seems to indicate a continuation in 2004 of the implicit policy of ongoing intervention in order to maintain a high nominal exchange rate. The level of Argentina's real effective exchange rate as of October 2003 was almost double the average from 1992-2001, thereby sending out favourable price signals for the tradable goods sector.

The 14.8% appreciation of the Paraguayan guaraní against the dollar in 2003 is chiefly attributable to the

21 Trinidad and Tobago could also be included, as its currency appreciated by a nominal rate of 2.3% between December 2002 and October 2003. Changes in the nominal exchange rate were specifically linked to foreign direct investment in the energy sector.

22 See the section on foreign trade.

good showing turned in by the external sector, particularly in the case of soybean exports. However, given the sharp appreciation of the real and the Argentine peso in relation to the dollar, the real effective appreciation of the guaraní has amounted to only 3.5% during the year. The fourth country of the group, Uruguay, has witnessed a limited real appreciation against the dollar (3.3%). However, movements in the exchange rates of its trading partners have translated into an 8.7% depreciation of Uruguay's real effective exchange rate. As the end of 2003 approaches, the effective exchange rates of both countries, and of Uruguay in particular, are higher than before the crisis: In October 2003, Uruguay's was 47% higher (depreciation) than its average between January 1997 and December 2001, whereas Paraguay's was 18% higher.

In Chile, changes in the exchange rate have mainly been driven by external factors. The nominal appreciation of the Chilean peso has been linked, in particular, to the sizeable upswing in copper prices on the international market (and, to a lesser extent, in wood pulp prices), the stabilization of oil prices and a considerable inflow of capital. Against the backdrop of a very low inflation rate, there was a real appreciation of the peso in relation to the dollar of 8.1% (1.1% in the real effective rate) during the first 10 months of 2003.

In Haiti, on the other hand, changes in the exchange rate were mainly due to domestic factors. Between December 2002 and October 2003, the gourde appreciated by 20% against the dollar in real terms. This was mainly a reflection of the currency's nominal stabilization, since it posted a 5.7% depreciation during that period as a result of fiscal stabilization measures adopted as part of an agreement signed by the government with the International Monetary Fund. These changes have occurred within a context of high (but falling) inflation following the increase in fuel prices resulting from changes in price-setting mechanisms for fuel products.

The second group is made up of the countries whose currencies have decreased significantly in value against the dollar in 2003. This group consists of Jamaica, the Dominican Republic and Venezuela, where exchange rates have mainly been affected by crisis-related domestic factors. Mexico is also included in this group, but for different reasons.

In early 2003, the Dominican Republic lapsed into a deep crisis from which it has yet to emerge. In 2002, lax fiscal accounts signalled the approach of a situation of this type. In 2003, the crisis has been reflected in events such as the collapse of the Banco Internacional and two other banks, and the tragic strike in November that resulted in the loss of human life. In particular, fiscal problems (in an election year), a quasi-fiscal deficit (the negative profit balance of the central bank) and the deterioration of expectations following the return of the electricity distribution companies to State ownership (and the subsequent suspension of IMF payments), have all driven up the currency's nominal depreciation rate (59.5% during the first 10 months) and inflation (29.7%). The result has been a 25.3% depreciation of the Dominican peso in real terms against the United States dollar in the first 10 months of 2003.

Jamaica's fragile fiscal situation and its current account deficit were reflected in a sharp depreciation of the Jamaican dollar in 2002 and during the first quarter of 2003. At that point the authorities managed to stabilize the currency through the direct intervention of the central bank in the foreign-exchange market and a steep increase in interest rates. These measures have taken a heavy toll on public finances (due to the high level of indebtedness) and economic activity, however. In October 2003, the real exchange rate in relation to the dollar was 7.5% higher than in December 2002 as a result of the 12.8% nominal depreciation of Jamaica's currency against the dollar during that period.

Venezuela fixed its exchange rate in relation to the dollar in February 2003, following a general strike that paralysed the country for two months. At the same time, the government introduced exchange controls and limited the sale of dollars through a new institution, the Currency Management Commission (CADIVI). The official dollar exchange rate for the bolívar depreciated by 0.7% in real terms between December 2002 and October 2003, which may appear surprising given the fixed exchange rate and the 22.5% accumulated rate of inflation for that period. The explanation lies in the 21% nominal depreciation of the bolívar from its average value in December 2002 and the value at which it was set in February 2003.[23] Since inflation is being held in check through the use of price controls, it is difficult to predict what may happen in 2004 if inflation were to remain high, but it is likely that the government would decide to adjust the parity of the bolívar upward (depreciation).

The Mexican peso has continued to depreciate (8.7% in real terms in relation to the dollar between

23 In fact, the exchange rate for the bolívar increased by 26.9% (depreciation) between December 2002 and January 2003 amidst significant capital outflows. The bolívar exchange rate was fixed below the peak parity reached in January 2003.

December 2002 and October 2003), notwithstanding the short-lived appreciation observed during the second half of the year. In a context of sluggish economic growth, low inflation and falling interest rates, the peso experienced a 9.5% nominal depreciation against the dollar in 2003. This has boosted the competitiveness of the tradable goods sector. The appreciation of the peso reached its peak in March 2002,[24] after which it began to trend downward. At present, the real exchange rate against the dollar is 7.3% higher (depreciation) than in November 1994, just before the so-called "tequila crisis". Given the growing volume of Chinese exports to the United States market, where they may be crowding out imports from other emerging economies (such as Mexico), there is some question as to whether the current level of the Mexican peso will be enough to reverse the poor performance of its exports to that market. However, in view of the fact that China's expansion is based on such factors as improved labour productivity, high investment and the country's entry into the World Trade Organization, it may not be easy for Mexico to maintain its market share simply by maintaining a depreciated exchange rate. It will also be necessary to take account of the importance of real factors influencing the productivity of the economy's tradable goods sector.

The third and final group is consists of countries that experienced limited changes in their exchange rates during 2003.

In the countries of the Andean Community (which, apart from Venezuela, is made up of Bolivia, Peru, Colombia and Ecuador) and Central America (Honduras, Nicaragua, Costa Rica, Guatemala, Panama and El Salvador), exchange rates have not varied a great deal in relation to the dollar. It should, however, be pointed out that Bolivia's real exchange rate against the dollar and its effective exchange rate (depreciation) are high by historical standards (see figure 14).[25] In Central America, Guatemala's real effective exchange rate is low (appreciation) by historical standards at the close of 2003, despite a slight depreciation in relation to the dollar.

All the dollarized economies of the region (Ecuador, El Salvador and Panama) are in this group. Ecuador's real effective exchange rate has remained stable during 2003 (depreciating by 0.5%), thereby halting the ongoing appreciation that had been observed since the adoption of the dollar as legal tender in January 2000. The contributing factors to this stabilization have been not only the deceleration of inflation (a cumulative rate of 5.8% as of October), which meant that the real appreciation in relation to the dollar amounted to 3.6%, but also, and especially, the downtrend (appreciation) in the currencies of its other trading partners. The real effective exchange rate has stabilized at historically low levels (close to the rate seen at the beginning of 1998 and below the longest-standing historical averages (see figure 14). This underscores how important it is for Ecuador to enhance the real productivity of its economy.

Monetary policy

Although generally lower inflation and greater fiscal discipline have made it possible to reduce policy interest rates, credit has contracted sharply in real terms in countries where crises have undermined the solvency of bank borrowers.

Reduced inflationary pressure in most of the region's countries, combined with a tight fiscal policy and lower international interest rates, have enabled several countries to reduce their policy interest rates or keep them at a low level, and still meet their inflation targets. In countries with relatively low and stable inflation, the intentions of the monetary authorities are signalled by the behaviour of nominal monetary-policy interest rates. In high-inflation countries, on the other hand, the authorities take measures acting on real interest rates and thus reduce the pace of inflation. With few exceptions, reductions in policy rates have generally been transmitted to other interest rates.

24 In October 2003, the real exchange rate was 19% higher than in March 2002.

25 Mainly because of the appreciation of its trading partners' currencies, Bolivia's real effective exchange rate was 12.3% higher in October 2003 than in December 2002, whereas the increase for Peru was 4.9%.

Another significant development has been a sharp real credit contraction in crisis-hit countries, both in 2002 and in 2003. Thus interest-rate cuts have not had uniform effects throughout the region; and in these countries particularly, lower rates have failed to boost lending because of the straightened situation of bank borrowers, the bank's perception of the risk attaching to increased lending, and lack of confidence in economic prospects.

In 2004, fiscal discipline and low inflation are expected to continue in most countries; so no major changes are anticipated in the direction of nominal monetary policy rates, even though international interest rates might increase. Bank portfolios will need to improve substantially before credit recovers in a number of countries that have suffered financial crises.

A country's exchange-rate regime is the prime determinant of its ability to implement monetary policy. For instance, the decisions taken by Ecuador, El Salvador, Panama and the member countries of the Eastern Caribbean Central Bank (ECCB) to adopt a foreign or non-national currency (dollarization in the first three cases) implies forgoing monetary policy, since the national authorities no longer control the amount of money in circulation, and domestic interest rates tend to be determined internationally. Nonetheless, most Latin American countries have adopted flexible exchange-rate regimes that allow them to implement monetary policy; and the same is true of countries with intermediate exchange-rate regimes such as Costa Rica and Nicaragua. There are also countries outside the first group, such as Bolivia, Costa Rica, Nicaragua and Uruguay, where highly dollarized financial systems have developed (de facto dollarization); monetary policy is very difficult to apply in such economies, and the feasibility, cost and benefits of de-dollarization is currently a topic of debate.

In countries that do have monetary policy, it is important to distinguish between the policy **intention** –which is signalled by the behaviour of interest rates under the most direct control of the monetary authority– and the policy's **effects** on other rates, particularly real lending rates, i.e. those most directly linked to expenditure (see box 2).[26]

Trends in monetary-authority interest-rate policies can be seen in figure 1, which shows nominal interbank rates, deposit and lending rates, and inflation in non-dollarized economies for which information is available (data from 1997, seasonally adjusted and smoothed using the Hodrick-Prescott filter).

Effective control of the interest rate used as a policy tool by monetary authorities results in an immediate change in the interbank rate and has a significant and rapid effect on deposit rates (see box 2). In figure 18, for example, changes in the interbank interest rate in Brazil and Chile have been reflected almost immediately in identical movements in deposit rates, such that the paths of these two variables are virtually inseparable; thus the policy interest rate exercises very close control over deposit rates in these countries. Interest rates on loans should also tend to move in the same direction, as has happened in Brazil throughout the period, and in Chile until mid-2003 when lending rates began to rise for reasons discussed below.

1. Across-the-board reduction in monetary-policy interest rates

The general pattern in 2003 has been for interbank rates and other nominal interest rates to retreat from their 2002 levels, although figure 19 clearly identifies the Dominican Republic, and to a lesser extent Colombia, as exceptions. The conditions allowing for such reductions have been provided by generally lower inflation compared to last year, again with the exception of the Dominican Republic.[27]

To expand on this point, this section identifies three groups of countries according to their revealed **policy intention** in 2002 and 2003. The first group consists of Chile, Colombia, Mexico and Peru, all of which had already lowered their interest rates to some extent in 2002. Those countries, which operate with flexible exchange-rate systems and inflation targets, held crisis at bay in 2002 and kept inflation in single digits. Chile and Peru have been able to maintain their monetary policies in 2003, but the authorities in Colombia and Mexico have had to change course.

In 2003, Peru has resumed the process of lowering the interbank interest rate that it had begun in previous years, and the rate eased from 3.8% in January to an annual rate of 2.7% in October 2003. Chile cut its monetary-policy rate six times in 2002 and again in January 2003 to an annual rate of 2.75%; at which level it remained until December, when it was further reduced to an historical low of 2.25%. In both countries the annual inflation rate has reached record lows of under 2%; and in November 2003 inflation in Chile was undershooting the lower bound of the established target.

26 In the case of quantitative instruments, the policy stance is reflected in the relevant monetary aggregate.
27 Inflation figures for Venezuela in 2003 are understated, since price controls have been in force.

Box 2

MONETARY POLICY: INSTRUMENTS, TRANSMISSION MECHANISMS AND EFFECTIVENESS

Given the negative economic effects of inflation, keeping price increases under control has been a permanent concern in the region over recent years. For this purpose several countries have implemented foreign-exchange policies based on fixed or semi-fixed exchange-rate regimes. When flexible exchange-rate mechanisms were adopted, monetary policy became the instrument of inflation targeting. Once an inflation target has been set, achieving it is crucial for central-bank credibility; and announcement of the target is also a means of guiding the expectations of economic agents.

Inflation targets vary from country to country. Some have adopted the principle of aligning their inflation rate with that of their main trading partners, while others have attempted to match rates prevailing in developed countries.

The current means of controlling inflation involves manipulating a policy interest rate. Given the commitment to achieve the inflation target, the behaviour of the monetary-policy interest rate is a function of the gap between expected inflation and the target. Adopting a target interest rate as a policy tool typically results in gradual adjustments being made to the rate, with very few changes of direction. In an open economy, the domestic interest rate is the same as the international rate, augmented by a risk premium and the expected rate of devaluation. In a flexible exchange-rate system, this means that external shocks will be transmitted through exchange-rate fluctuations. In highly dollarized or dual-currency economies, the monetary-policy interest rate will be equal to the international rate adjusted for country risk. As neither the risk premium nor devaluation are set by the monetary authority, they represent constraints on monetary policy as actually implemented.

The interbank interest rate is a reflection of the (nominal and short-term) monetary-policy rate set by the central bank or other relevant monetary authority. This is because the interbank market is where the authorities intervene to guide the interest rate towards its target, and where liquidity is channelled from institutions with surplus funds to those with shortfalls, thereby allowing more efficient financial intermediation. Apart from exceptional circumstances, capital flows within the financial system are intermediated at the rate decided upon by the central bank. It is therefore possible to infer the authorities' intention by observing the behaviour of policy- or interbank interest rate. Rates will tend to rise if the inflation target seems likely to be missed, whereas they will tend to ease if the target looks set to be achieved comfortably.

` The interest rate that acts on aggregate demand is a medium-term real rate determined by the market. There are two basic monetary-policy transmission mechanisms: the interest-rate channel (which affects two of the components of aggregate demand, namely consumption and investment); and the credit channel. The relative effectiveness of monetary policy depends on the extent to which the authorities' intention is transmitted through those channels (i.e. if they operate in the direction signalled by the central bank). As financial systems in the region are essentially banking systems, the structure of the banking sector (in terms of interest-rate behaviour or the supply of credit) has a major effect on monetary-policy transmission mechanisms. The behaviour of real long-term interest rates in the financial system does not depend solely on decisions made by the monetary authorities, and market conditions may overrule the authorities' intentions in certain situations. Examples include failure by banks to transmit a reduction in policy rates to the interest rates they charge on loans; excessive dollarization of the financial system; and falling inflation which causes real interest rates to rise. In addition to this, one of the greatest problems in implementing monetary policy stems from the time lag with which measures adopted affect domestic prices.

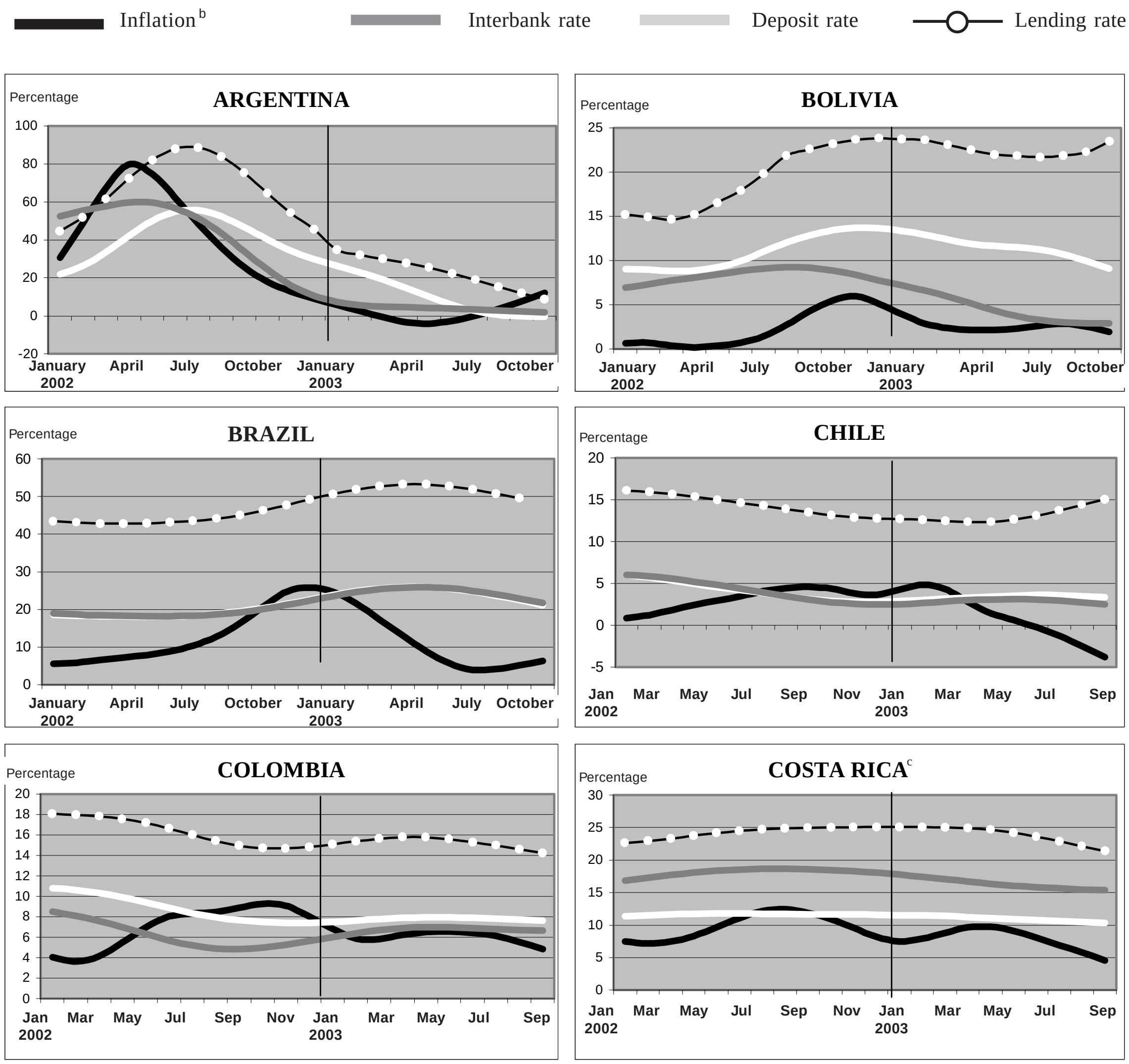
Another issue, which cuts across this discussion, is whether monetary policy can affect the real business cycle once inflation has been controlled and the established target met.

In Mexico, the authorities' concern over the rise in inflation, which breached the 4.5% target by 1.2 percentage points in 2002, has given rise to monetary tightening[28] and interest-rate hikes. The resultant fall in inflation, almost to the midpoint of the 2003 target (3%),[29] has facilitated a substantial reduction in the equilibrium interbank rate, from 10% in March 2003 to an annual rate of 5% in October.

28 The regime of cumulative monthly balances held by the banking system in current accounts at Banco de México (known as the "corto") rose from 475 million to 700 million pesos per month during the first quarter of 2003. From April onwards, this was replaced by a "corto" of 25 million pesos per day (i.e., 700 million pesos per 28 days).

29 The annual range is 2% to 4%.

Figure 18
LATIN AMERICA: NOMINAL INTEREST RATE TRENDS[a]
(Annualized percentages)



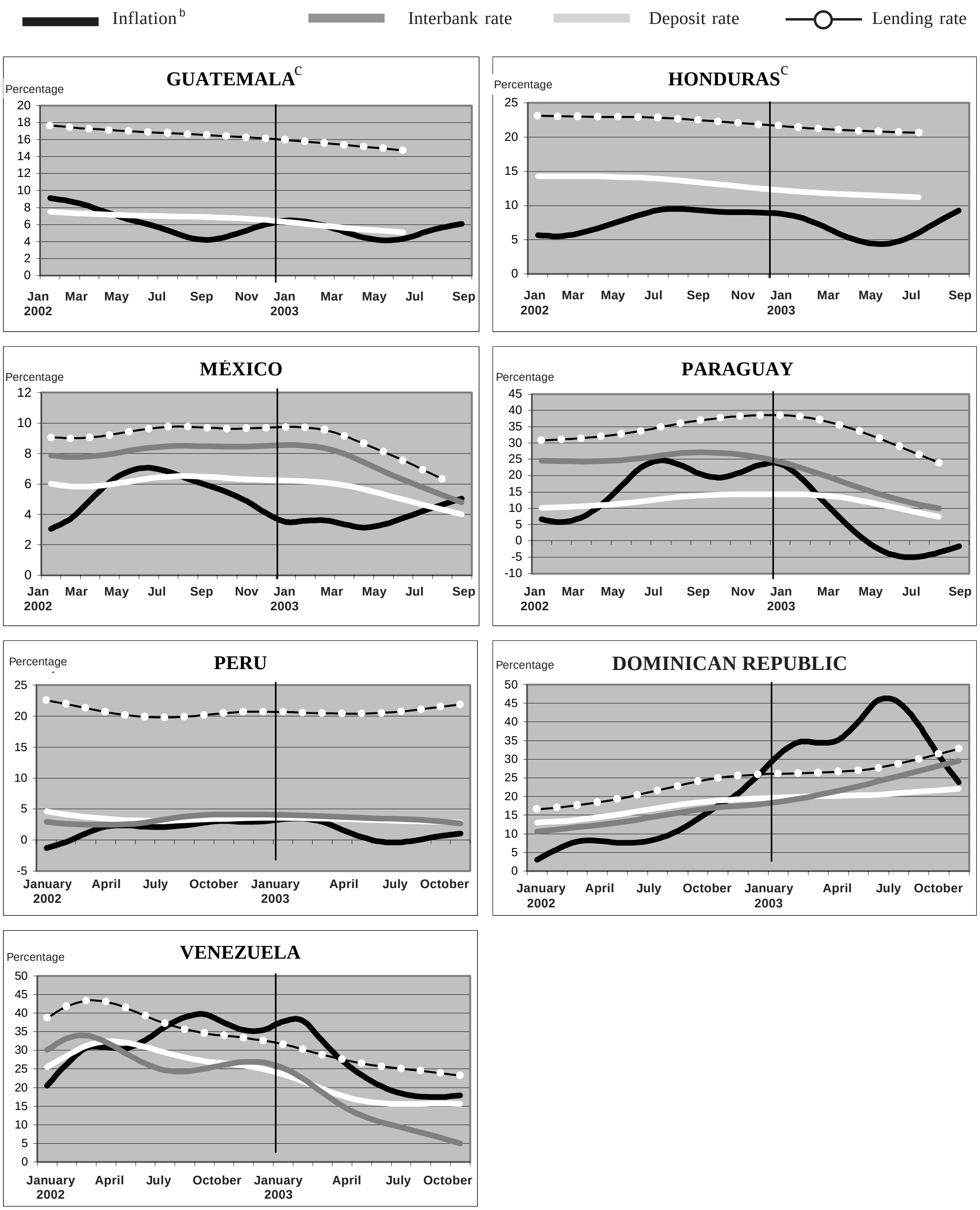
Source: ECLAC, estimates on the basis of official figures.
[a] Monthly rates seasonally adjusted (X-12) and smoothed using the Hodric-Prescott filter (λ =10).
[b] Underlying monthly inflation rate (annualized).
[c] Reference rate set by the Central Bank of Costa Rica for six-month open-market operations.

In Colombia, however, where inflation also overshot the 6% target in 2002 (by 1.1 percentage points), the intervention interest rate was raised to 5.25% per year in January (below inflation), and then to 7.25% in April where it has remained for the rest of the year. Of these four countries, only Colombia has a higher monetary-policy interest rate in 2003, although its current nominal level (7.25% per year) is historically low and only slightly above annual inflation as of November (6.1%).

The second group consists of the MERCOSUR countries affected by severe crises and their aftermath in 2002. Having experienced steep currency devaluations and inflationary surges in 2002, Argentina, Paraguay and Uruguay have reversed the interest-rate hikes implemented in that year, by making significant cuts in 2003. The freedom to do this has been provided by tight fiscal policy and a substantial fall in inflation, helped greatly by a partial reversal of the previous steep currency depreciation.

In Argentina, the interbank rate peaked a few months ahead of the deposit and lending rates, which had reached 80% per year in mid-2002. Since then, interest rates and

Figure 19
LATIN AMERICA: NOMINAL INTEREST RATE TRENDS[a]
(Annualized percentages)



Source: ECLAC, estimates on the basis of official figures.
[a] Monthly rates seasonally adjusted (X-12) and smoothed using the Hodric-Prescott filter (λ =10).
[b] Underlying monthly inflation rate (annualized).
[c] Interbank interest rate not available.

inflation have fallen back to their pre-crisis levels, and even lower. Similar processes have occurred in Paraguay and Uruguay, where interbank rates have dropped substantially. Argentina and Uruguay have both adopted the monetary base as a policy tool for achieving inflation targets and have significantly lowered bank reserve ratios.

The constraints faced by Brazil in the second half of 2002 caused the benchmark interest rate (SELIC) to rise from 18% to 25% per year, and it eventually peaked at 26.5% in February 2003. In addition, the Central Bank has drastically reduced the monetary base and used other instruments to reduce liquidity. In 2003, these measures have reduced inflation to an annual rate of under 10%, hence the authorities' decision to begin a gradual and moderate lowering of the SELIC rate, which had fallen to 17.5% by November 2003. In more concentrated economies that are relatively less open to foreign trade, profit margins can expand rapidly in response to higher inflation expectations fuelled by a break in the downward trend in prices. These considerations led the Brazilian authorities to act more prudently in terms of monetary management.

The situations in Bolivia, the Dominican Republic and Venezuela each have special characteristics. In Bolivia, 90% of deposits are held in dollars, which leaves little room for monetary-policy manoeuvre. Nominal lending and deposit rates in dollars have begun to trend downwards again in 2003, but the tense political situation prevailing in the country caused bank deposits, the loan portfolio and international reserves all to shrink, while interbank rates shot up albeit temporarily. All of this has served to further weaken the banking system, which in September was displaying a non-performing loan rate of 18%. The Central Bank made use of the liquid-asset requirements that commercial banks maintain abroad, and expanded the monetary base.

The critical situation unfolding in Venezuela has led to abrupt changes in its exchange-rate regime, together with currency controls, price controls and other drastic measures, in a major inflationary process involving repressed inflation and great uncertainty. Despite the high rate of inflation, the interbank interest rate has dipped sharply during 2003, following the rate hikes that ensued from changes made to the exchange-rate system and economic policy in early 2002 and 2003.

The Dominican Republic is the most striking exception to the general trend. Interbank rates –which had soared in 2002 amidst rising inflation, currency devaluation and intense capital flight– have risen further during 2003. With inflation gathering pace, the interbank rate had climbed to 30% per year by October 2003, although this level was still below inflation.

Costa Rica, Guatemala and Honduras form a relatively homogenous group in which nominal interest rates have trended downwards.

2. The effects of policy were uneven

When monetary authorities have greater control over the policy interest rate, movements in that rate rapidly produce effects in the same direction over the entire spectrum of nominal deposit and lending rates (see box 2). The available information shows that deposit and lending rates have tended to follow the changes of direction in interbank-rate movements in most countries (see figure 18), apart from the exceptions already mentioned. Figure 2 shows real lending and deposit rates for selected countries.

Another significant result is that, in the third quarter of 2003, bank credit in real terms has contracted substantially in several crisis-hit countries. These included Argentina, Paraguay and Uruguay (as a result of the crises of 2002), and Bolivia, Dominican Republic and Venezuela (as a result of the crises discussed above). Elsewhere, bank lending has either remained flat or has retreated slightly in real terms. In countries where large firms have access to foreign credit or to the stock market, this situation has mostly affected small and medium-sized enterprises.

Argentina and Mexico are examples of countries where monetary policy aimed at cutting interest rates has caused other nominal rates to fall rapidly, and has also lowered real interest rates (see figure 2). Nonetheless, bank credit in Argentina has shrunk considerably as a result of weak intermediation and the high level of non-performing loans (18.8% of the total credit portfolio). Argentina and Mexico have both been regaining control over their deposit rates in 2003, as revealed by the smaller spreads with respect to the interbank rate.

In the case of Chile, all interest rates have swiftly matched movements in the monetary-policy rate since 2001, but in the second half of 2003 rates on loans began to rise relative to the policy rate. This is explained by stronger growth in consumer lending (12%) on which interest rates are higher, while commercial credit remained stalled. There was similar stagnation in Peru, where total credit shrank by 6.4% in real terms in the third quarter of 2003 year-on-year.

Colombia provides an example of a policy interest-rate hike being followed by increases in other rates, including deposit and lending rates (see again figure 19), although these remain at historically low levels.

In Brazil, real lending rates have been rising since the second half of 2002, mainly because of the monetary tightening, mentioned above, which led to currency appreciation and a substantial fall in inflation. Once inflationary expectations had been broken, the authorities started to lower their policy interest rates gradually.

In Paraguay, real interest rates had been rising since 2002 and have continued to do so in 2003, since inflation has fallen faster than nominal rates (the country even experienced deflation between May and August 2003). Interbank interest rates have only begun to fall during the current year. There are other factors that make the situation more critical, however: bank credit has shrunk by 28.8% in real terms over 12 months (as of the third quarter of 2003), and non-performing loans account for 22.6% of the total credit portfolio.

In Bolivia, the Dominican Republic and Venezuela, the spread between interbank and deposit rates is growing, which shows that the monetary authorities have lost some of their control over the latter.

The climate of uncertainty prevailing in Venezuela as a result of the deep economic recession and severe political crisis is the main explanation for the significant contraction of bank credit (25.4% in real terms on a 12-monthly basis as of the third quarter of 2003). Although price indices are trending downwards, repressed inflation is a major factor here (indices that include non-controlled prices are reporting higher inflation), so it is by no means clear that real rates have actually increased. A similar climate of doubt engendered by political crises also prevails in Bolivia, where interest rates on loans have remained high despite attempts to boost expansion. Bank lending in this country has also plummeted, and the high arrears rate is another factor in play.

In the Dominican Republic, the authorities have reacted to higher inflation by continuously raising interest rates during 2002 and 2003, with the aim of tightening the monetary stance. Although the greater-than-expected increase in inflation has reduced lending rates in real terms, the crisis in the country has resulted in a 19% reduction in bank lending in real terms in the third quarter of 2003 compared to same period in 2002. The equivalent figure 12 months earlier showed bank credit growing by 12.8% in real terms.

In Uruguay, interest rates on peso-denominated loans to business fell from 155% in December 2002 to 51% in October 2003, while the lending rate for families has dropped from 144% to 71%. These rates are particularly relevant since the banks are no longer granting loans in dollars (70% of banking-system deposits are held in dollars).

In Costa Rica, Guatemala and Honduras, interest rates have eased slightly against a backdrop of fairly low inflation; between 2002 and 2003 inflation rates have slowed from 9.7% to 9.5% in Costa Rica, from 6.3% to 5.4% in Guatemala and from 8.8% to 8.1% in Honduras. Real interest rates on loans remain relatively high, however, particularly in Costa Rica.

In short, the aftermath of the crises that buffeted many Latin American economies has left borrowers in a weakened position, and this has reinforced the banking system's perception of the risk of increased lending: non-performing loans account for more than 4% of total credits in 12 of the 16 countries that have data for 2003, and stand at over 18% in four of them. This heightened risk has made it hard to pass on lower interest rates to borrowers in some cases, and has caused total bank credit to shrink in many countries. Eight of the 12 countries that have information available for the third quarter of 2003 are reporting negative growth in total lending compared to the same period in 2002, with total bank credit falling by 19% or more in five cases. In these countries, the intention signalled by lower monetary-policy interest rates could not be transmitted through the credit channel.

3. The process of lowering policy interest rates is expected to continue in 2004, but credit is unlikely to recover until risk perceptions among banks are reduced

Although international interest rates may rise in 2003, further cuts in monetary-policy rates are expected, since no resurgence in inflation, major currency depreciation or changes in fiscal discipline are anticipated. The policy would become more effective and widespread, however, if the risk attaching to bank loan portfolios were to fall more steeply. This would represent an intensification of a process that is already underway: in the third quarter of 2003, ten of the 15 countries with recent information available had succeeded in lowering their non-performing loan rates compared to levels reported for the same period in 2002 –although admittedly some of the reductions were minimal.

4. Domestic economic performance

The Latin American and Caribbean economy has grown by 1.5% in 2003, thus marking a favourable contrast with the region's 0.4% contraction in 2002. The recovery has not, however, been strong enough to compensate for the stagnation of previous years, and per capita GDP is still 1.5% less than in 1997. The reactivation of the world economy, which has brought an increase in regional exports, has contributed to this year's moderate improvement. Domestic demand has not yet bounced back from the slump of 2002, however. The increase in consumption has been slight, and gross fixed capital formation has been flat and thus remains at a historically low level. After having accelerated in 2002, inflation has been lower in 2003, thanks to prudent monetary and fiscal policies and greater exchange-rate stability. The moderate upturn in economic activity has not been sufficient to reverse the prior deterioration of labour and social conditions, as the unemployment rate remains comparatively high, while in many countries real wages are down.

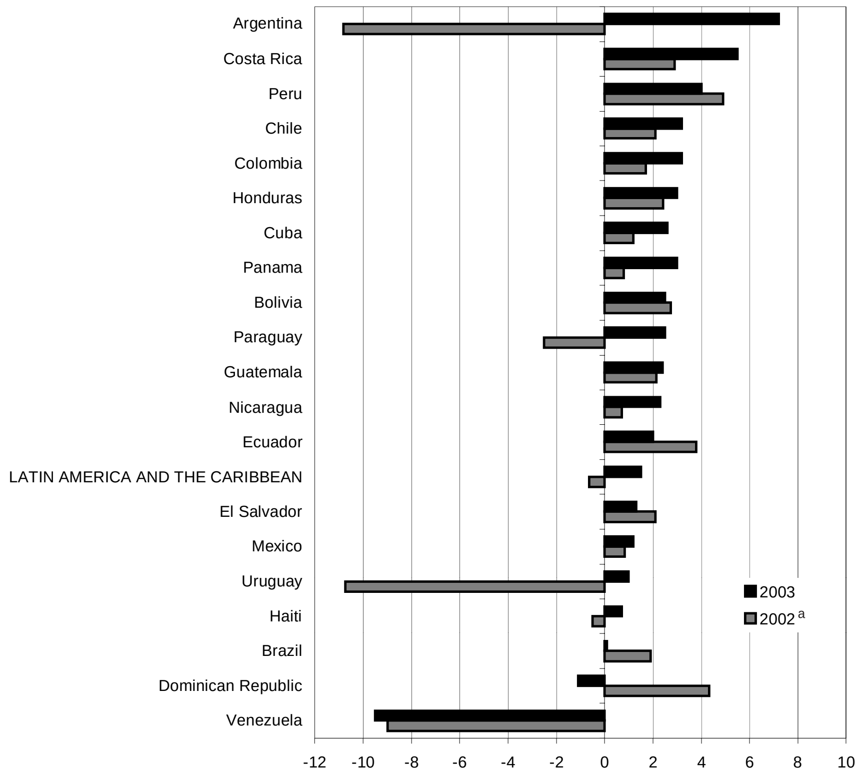
Growth and investment

Following a 0.4% reduction in GDP in 2002, the economies of Latin America and the Caribbean have expanded by 1.5% in 2003. Although its economy has picked up in the fourth quarter, Brazil's growth rate in 2003 is just barely in the positive range, while economic activity in Mexico has expanded by 1.2%.[30] Venezuela has witnessed a sharp contraction (9.5%) after having already sustained a similar decline in 2002. Argentina has succeeded in making a significant recovery in 2003 (7.3%) from its 10.8% slump of the previous year. While Chile, Costa Rica, Colombia and Peru are posting growth rates above 3%, the other economies of the region have performed sluggishly, recording rates of around 2% (see figure 20). Although the data for 2003 point to a recovery from the preceding year's levels, this rebound has not been strong enough to reverse the economic stagnation experienced in the region in recent years. Between 1998 and 2003, GDP growth averaged only 1.3% per year and per capita GDP is still 1.5% less than it was in 1997 (see figure 21).

The region's economic performance has been uneven in 2003, in contrast to its clear downward trend in 2001 and its strong upswing in 2002 (see figure 22). GDP growth was weak in the first three quarters, and economic activity did not begin to pick up its pace until the end of the year. This is in keeping with the more buoyant performance of the world economy, which has gained momentum in the second half of the year. It is also, in large part, a reflection of the pattern of GDP growth in Brazil, which was flat in the first three quarters

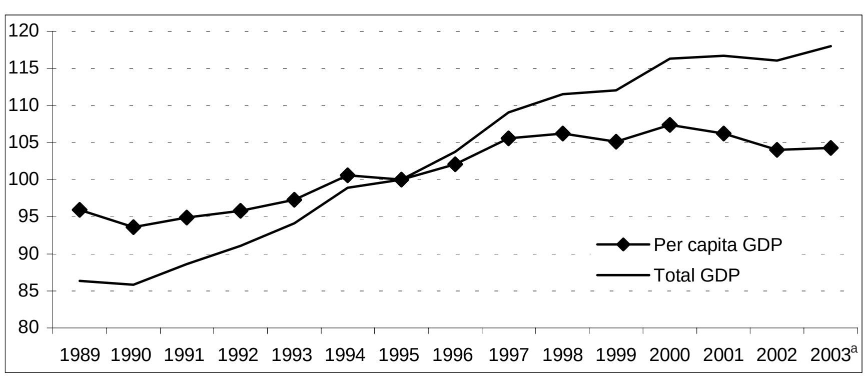
30 Setting Brazil and Mexico aside (the two largest economies in Latin America and the Caribbean), the region's economies grew by 3.1%.

Figure 20
LATIN AMERICA AND THE CARIBBEAN: ANNUAL GDP GROWTH RATES



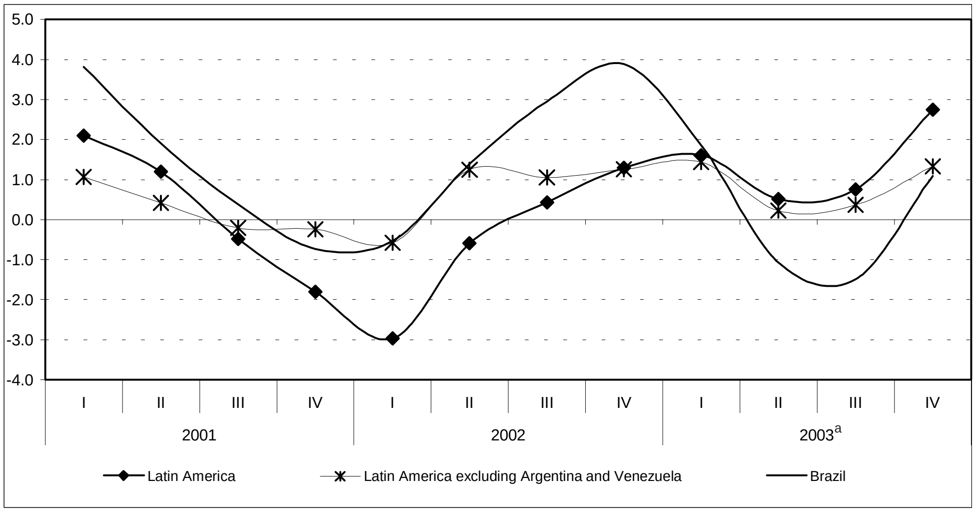
Source: ECLAC, on the basis of officials figures.
[a] Preliminary estimates.

Figure 21
GROSS DOMESTIC PRODUCT AND PER CAPITA DOMESTIC PRODUCT
(Indices 1995=100, constant 1995 dollars)



Source: ECLAC, on the basis of officials figures.
[a] Preliminary estimates.

Figure 22
LATIN AMERICA AND THE CARIBBEAN: QUARTERLY GDP
(Annual growth rates in constant 1995 dollars)



Source: ECLAC, on the basis of officials figures.
[a] Preliminary estimates.

and did not begin to rally until the last quarter of the year.

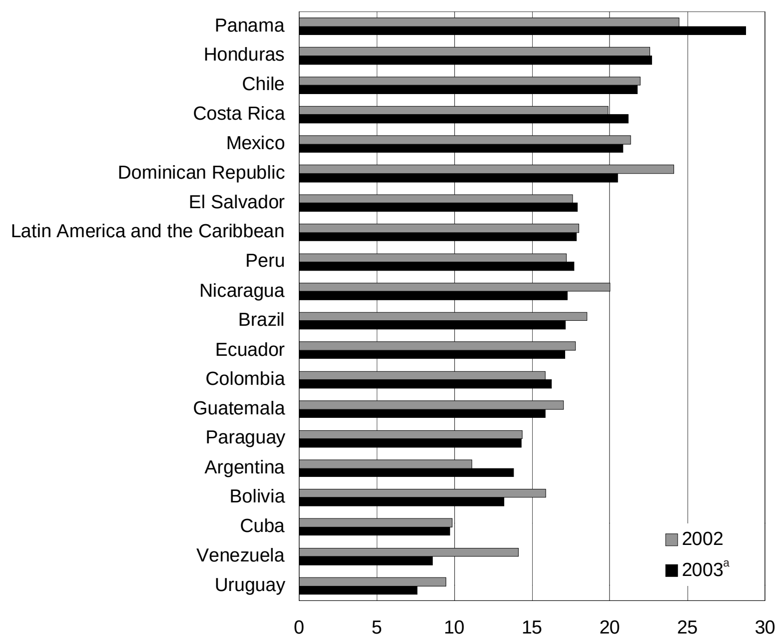
In 2003, the economic performance of most of the countries was marked by an increase in the volume of exports (4.4% in regional terms), whereas domestic demand remained stagnant. Consumption, which contracted considerably in 2002, strengthened somewhat, but still grew at a lower rate than GDP. Gross fixed capital formation diminished by 0.1%; this was much less than the 6% drop recorded in 2002, but it nonetheless fits in with the pattern of sustained declines in this variable that add up to a cumulative decrease of 11.2% since 1998 (see figure 23).[31] In 2003, investment –measured as a percentage of regional GDP– stands at around 18%, which is the lowest level since the early 1970s.

A decrease in the total savings rates of the countries of Latin America and the Caribbean is, by definition, one of the inevitable outcomes of the slump in investment. One highly significant feature of the years from 2000 on is that a relative increase in national saving has been generating a shift in the composition of total saving (see figure 24).[32] This stems from the decline in private consumption and a significant increase in remittances from abroad. With respect to 2001, private consumption in 2002-2003 has declined by somewhat more than 1%. The adjustment in consumption reflects the fact that many heavily indebted countries need to channel funds into servicing their extensive external commitments. In addition, external saving has been shrinking and has been negative this year, even though the balance-of-payments current account shows a positive balance thanks to the robust growth of net exports.[33] In fact, negative external saving implies that a portion of national saving is being used to reduce the region's net borrowings by paying off external liabilities or investing capital abroad and/or to build up international reserves rather than being channelled into domestic capital formation.

As mentioned in the section on the performance of the international economy, several factors, whose effects have varied in intensity from country to country, have contributed to a modest, export-driven (rather than domestic demand-driven) reactivation in 2003. Some of

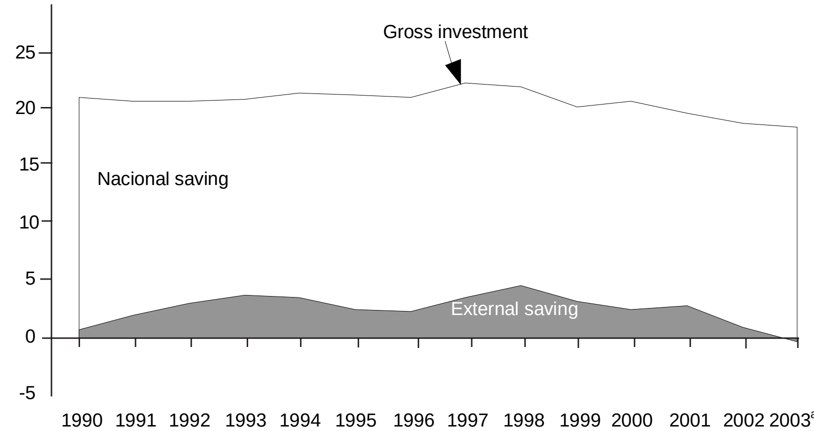
31 Haiti has not been included in figure 23 because the use of this indicator results in an overestimation of the relative level of investment included in that country's GDP.
32 National saving is the difference between national disposable income and domestic consumption.
33 Negative external saving is interpreted as the use of a portion of national saving by the rest of the world. This corresponds to a surplus on the current account and is reflected in capital and financial account balances, errors and omissions, exceptional financing and the variation in reserves on the balance of payments.

Figure 23
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION
(Percentages of GDP, in dollars at 1995 prices)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.

Figure 24
LATIN AMERICA AND THE CARIBBEAN: SAVING AND INVESTMENT RATIOS
(Percentages of GDP, in current dollars)



Source: ECLAC, on the basis of officials figures converts to dollars at current prices.
[a] Preliminary estimates.

these are extraregional factors linked to the relative upturn in the world economic situation that began in the second half of the year. The expansion of some Asian economies has been reflected in stronger demand and higher prices for the region's exports, including minerals, metals and certain agricultural products. High oil prices have also benefited the petroleum-exporting countries in the region, whose fiscal accounts are heavily dependent upon the proceeds from oil sales. In addition, the upswing in United States imports has had a positive influence on exports from the countries that are most closely linked to its business cycle, with the notable exception of Mexico.

There are also two types of internal factors that have contributed to the increase in export volumes in 2003. First, the sharp real devaluations in some countries' currencies in 2002 have not only boosted their competitiveness but have also increased exporters' local-currency earnings and facilitated, in some cases, import substitution. Although this trend has been partially reversed during the second half of 2003 in some countries, since their currencies have revalued in real terms against the United States dollar, the region as a whole has maintained its exchange-rate competitiveness. Thus, trends in exchange rates have boosted some sectors' exports in 2003. Second, past investments have created the installed capacity needed to expand production in given sectors, especially the mining and hydrocarbons industries.

GDP growth in the MERCOSUR countries has been based on the strong performance of the agricultural sector and, within it, especially those branches of economic activity most closely related to exports. In Argentina, domestic demand has also rebounded strongly. The real devaluations of local currencies in 2002 and during 2003, the growth in world demand and higher commodity prices have also stimulated external sales. In 2002, domestic demand, both for investment and for private consumption, contracted in these countries. The adjustment in all of their trade balances (mainly attributable to the sharp contraction in imports in 2002) paved the way for imports to make a comeback this year, together with investment and private consumption.

Argentina will post the highest growth rate in the region in 2003: 7.3% with respect to 2002. Even this robust expansion represents no more than a partial recovery, however, from the sharp drop in GDP of previous years, which was especially steep from mid-2001 to mid-2002. The strongest sectors are those related to investment, in both construction and in machinery and equipment, and to the export sector, whose solid performance is chiefly attributable to the increase in agricultural production. Nevertheless, given the steady decline in investment in the country during 1999-2002, the investment rate, measured in 1995 dollars, continues to be one of the lowest since the start of the 1990s. The reactivation that began in mid-2002 and continued in 2003 is based mainly on the greater profitability of export sectors, the boost given to industrial activity by, among other factors, import substitution and the measures adopted by the authorities to assist households in a context of high unemployment. Towards the end of 2003, the rate of recovery has slowed, but sectors related to household consumption (such as food and beverages and personal care items) have rallied.

In Brazil, the growth of export sectors and associated activities has contrasted with the weakness of domestic demand. For 2003, GDP will barely be positive (0.1%), and this follows upon a feeble expansion in 2002. Growth in economic activity has been influenced by policies geared to strengthen the authorities' credibility. One such measure was to raise the target figure for the primary surplus from the 3.75% level agreed upon with IMF to 4.25%; another was to keep interest rates high during the first half of the year in order to control domestic price movements. This policy has succeeded in reining in inflation and laying the foundations for economic growth in 2004, but in the short term it has triggered a sharp contraction in domestic demand. Thus, the most buoyant sectors have been export-related activities (agriculture and agribusiness) and industries involved in mechanical engineering and production and in metallurgy. In addition, some sectors have directed their output to the export market because demand has been so slack on the domestic market. In the second half of the year, economic activity has taken a more positive turn. The authorities' success in curbing inflation and the reversal of negative expectations on financial markets have been reflected in a narrowing of external debt spreads. This has permitted the authorities to gradually lower interest rates. In addition, a slight upturn in industrial production appears to have begun, together with an increase in imports of capital goods and consumer durables. Nevertheless, investment has shrunk by 7.5% during the year, which comes on top of the 4% decrease seen in 2002.

Economic activity in Uruguay and Paraguay has been underpinned by the strength of the agricultural sector, most of whose output is geared to the export market. In Uruguay, GDP has expanded by just 1%, but this rate nevertheless reflects a considerable reactivation of the economy over the year. Paraguay's 2.5% growth rate has been based almost entirely on the noteworthy increase in agricultural output and a slight upswing in the construction sector.

In the Andean countries, economic growth has also been buoyed by the export sector, especially mining and hydrocarbons exports. These countries, too, have benefited from stronger international demand and higher prices for some products, particularly metals, minerals and petroleum. In Chile, increased export shipments have been coupled with a slight improvement in the terms of trade. This is no minor factor, since these terms had been steadily deteriorating, with a cumulative decline of 17.5% being registered for 1997-2002. In addition, a monetary policy that has kept interest rates low has encouraged consumption and investment, especially in construction. All of this has translated into a 3.2% growth rate for the year. In addition, Chile has benefited from the devaluation of its currency in 2002, which has turned various non-traditional exports –whose production is very elastic in relation to a real currency depreciation in the short term– into profitable ventures.

In Bolivia, economic activity has been disrupted by the political upheavals that occurred at various times of the year, especially in February and October. Some sectors of the country have been paralysed, and the operation of transport and other services has been affected. The sharp decrease in imports reflects the weakness of domestic demand in an economy in which gross fixed capital formation has contracted by almost 15% in 2003. The economy's 2.5% growth rate for the year is essentially a result of the higher export volumes made possible by a good soybean harvest and increased sales of natural gas to Brazil in the fourth quarter of 2003. In Peru, GDP has risen by 4% in 2003, bolstered by the mining, manufacturing and services sectors. The increase in domestic demand reflects private consumption and gross fixed private investment, much of which is related to a large-scale natural gas project.

Ecuador is posting GDP growth of 2% for 2003, thanks to the steep increase in oil production in the closing months of the year once the new heavy crude pipeline came on stream. In September-October 2003, crude production shot up by around 20% compared with the same period of 2002. The rest of the economy has been sluggish, except for banana production, which has expanded significantly during the year. Colombia is recording a 3.4% growth rate based on the expansion of exports and investment, chiefly in the construction industry. Coal and nickel exports have expanded, but exports of manufactures have dipped as a result of the drastic cutback in Venezuelan imports. The recovery in the construction sector has fuelled growth in related areas, including some branches of industry and the financial sector.

In Venezuela, the economic and political situation has been troubled throughout 2003. The strike called by the opposition and business associations, which lasted from December 2002 to early February 2003, caused oil production and exports to plunge, as well as triggering a strong contraction in the rest of the economy. As a result, economic activity plummeted in the first quarter, with activity in the petroleum sector down by nearly 50% from the same period of the preceding year. In the second quarter, a partial recovery in this sector opened the way for some improvement, but the non-oil sectors did not follow suit. Economic activity as a whole will fall by 9.5% for the year, with steep downturns being exhibited by investment (-45%) and household consumption.

Mexico's 1.2% growth rate is associated with its extractive industries, particularly oil production, which has climbed by approximately 6% in 2003. Construction has also been boosted by low-cost housing programmes, and this has had a positive impact on related sectors, such as real estate and financial services. Oil revenues account for about one third of fiscal revenues and, since oil prices have stayed high throughout the year (and far above the projected levels used in drawing up the budget), the government has been able to offset the loss of income in other areas and maintain its public works projects without falling short of its fiscal target. On the other hand, maquila production has stagnated and has not benefited from the upswing in United States imports. Domestic demand reflects the fact that the authorities kept interest rates high during the first few months of the year in order to ease the upward pressure on domestic prices and meet inflation targets. Gross fixed capital formation has fallen by 1% in 2003, thus continuing a downward trend that started in 2000 and has led to a cumulative deterioration of 5.5% in 2000-2003. Private consumption has been a major engine of growth for the country in recent years, and it has continued to expand faster than the overall economy, but it has lost some momentum owing to the increasingly slower growth of real wages and higher unemployment.

In the Central American countries, economic activity is growing at similar rates to those observed in 2002 (around 2% for most of these countries). Economic performance in El Salvador, Guatemala and Honduras has been buoyed by the increase in the maquila industries' output, most of which is sold on the United States market. Private consumption has continued to be fuelled primarily by transfers by non-residents, chiefly family remittances. In Nicaragua, economic growth has mainly been attributable to household consumption, higher wages, the availability of loans and the remittances sent by family members residing abroad.

The expansion of Costa Rica's and Panama's economies has been stronger than in the other countries of the subregion. Costa Rica is posting a growth rate of 5.6%, thanks to its fruit and high-technology industries, both of which cater to the export market. Investments made in 2002 in the communications sector have enabled it to boost its level of activity. Panama's 3% growth rate for 2003 reflects upturns in construction and tourism, and especially in cruise ship activity and its Canal and port operations. On the other hand, activity in the Colon Free Zone and the financial district has been sluggish.

Economic activity in the Dominican Republic, which has contracted by 1.3%, has been hurt by the spike in inflation and the devaluation of the Dominican peso. The surge in inflation is attributable to the depreciation of the currency, higher international oil prices and the elimination of electrical power subsidies. The increase in the rate of exchange, which began in late 2002, is the result of the pressure exerted on the foreign exchange market by a decline in foreign capital inflows and an outflow of private capital, both of which have contributed to a loss of international reserves. This critical situation was heightened when a major bank failed and the central bank had to step in and provide massive financial assistance. The authorities have adopted a package of fiscal measures to respond to this state of affairs which include the establishment of emergency taxes to offset the fiscal costs of the banking crisis, cutbacks in public investment and a freeze on civil service wages. There has been a sharp slowdown in economic activity during the year, but the economic sectors most closely related to export activity have prospered. The depreciation of the currency has helped the free trade zones boost their exports of manufactures and even to attract investment. Mining has picked up thanks to the reopening of a nickel mine which was closed early in 2002. Tourism has made a comeback after having stagnated in 2002.

Growth in the Caribbean economies has been slow. Although tourism activity has increased in most of the subregion, the performance of the English-speaking countries has not come up to expectations, owing in part to the diversion of tourist flows to Cuba and the Dominican Republic. The merchandise trade deficit has widened, as imports have reflected the increase in oil prices and merchandise exports have not expanded significantly. The balance on the services account will not be large enough to offset the increase in the merchandise trade deficit, and pressure is therefore being exerted on the balance of payments. This situation is compounded by the countries´ high level of indebtedness, which includes a large percentage of domestic debt, and serious fiscal imbalances, above all in the smaller economies. The exception is Trinidad and Tobago, which is turning in a 5.5% growth rate thanks to a strong increase in oil production. Jamaica and Guyana, which have large fiscal deficits and are subject to exchange-rate pressures, are recording 1% growth; Barbados is marking up a 2.5% rate, while Suriname is posting a rate of 3.5%. Belize, with a 4% growth rate, has benefited from a surge in tourism activity. Growth rates in the Eastern Caribbean countries range from 0.4% in Dominica to 3.2% in Antigua and Barbuda, where increased investment in road infrastructure has had a very positive impact.

Cuba has seen its economy grow by 2.6%. Tourism activity has increased, but the sugar cane harvest has been the worst in the island's history. In Haiti, where the economy grew slightly in 2003, the authorities have reached an agreement with IMF on targets for the fiscal deficit, inflation and public-sector efficiency. This arrangement will enable international organizations to resume their grants and donations for reform and poverty reduction programmes.

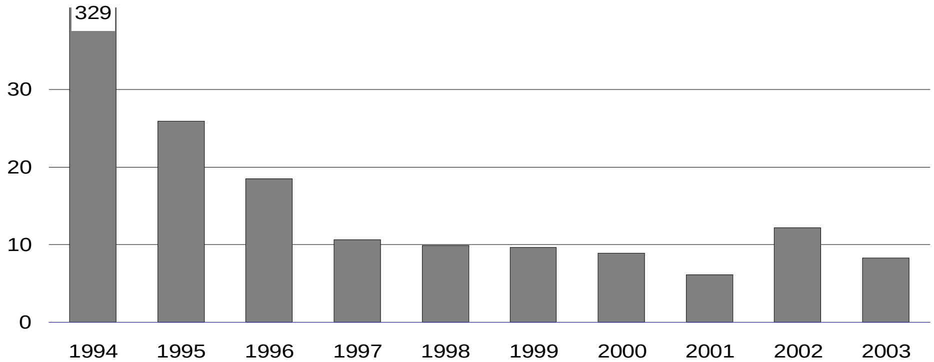
Inflation

Regional inflation again exhibits a downward trend

The annual inflation rate for Latin America and the Caribbean as a whole[34] stands at just over 8.5% for 2003. This is four percentage points less than in 2002 and would seem to herald a return to the single-digit levels recorded in 1998-2001. Price increases have been low or moderate in 18 of the 22 economies for which information is available. Two-digit surges have been seen in only four countries, with the sharpest increases being in Haiti and the Dominican Republic, which are posting rates of over 40%. In several countries inflation rates for 2003 are very low and are approaching the levels

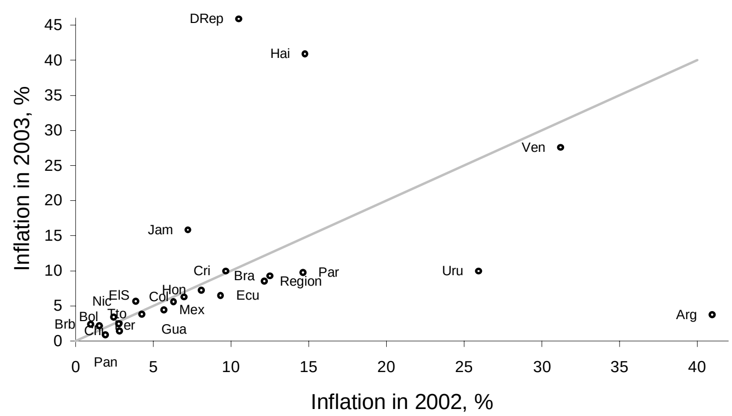
34 The calculation is based on variations in the consumer prices indices (CPI) in December of each year in relation to the same month of the preceding year, weighted by the population of each country.

Table 25
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES INDICES
(Twelve-months variation)



Source: ECLAC, on the basis of official figures.

Figure 26
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDICES
(Annual percentage variation)



Source: ECLAC, on the basis of official figures.

characteristic of developed countries, while the rate in Argentina has plunged by 37 percentage points. Wholesale prices have risen by about 8% in 2003, which is a significant reduction compared to the 29% rate for 2002 (the rate was just under 6% in 2001).

Determinants of the lower inflation rates of 2003

The downturn and generally low level of inflation in 2003 is accounted for by a series of demand- and supply-side factors. In terms of demand, the appropriate management of macroeconomic –and particularly monetary– policies and the adoption of a prudent policy stance in almost all the countries has clearly had an impact. Although in several countries these policies have been expansionary, they have been managed cautiously in order to avoid generating inflationary pressures. Some countries are also basing their monetary policies on inflation targets, which means that policy instruments will be applied rapidly if there is any deviation from those figures. In addition, the authorities' management of fiscal accounts has at least partially reversed the deterioration of previous years, and this improvement has reduced the danger that inflation might spiral out of control.

On the supply side, variations in costs associated with increases in the exchange rate have abated, in contrast with what happened in 2002, when some countries experienced significant devaluations. During 2003, the depreciation seen in some of the region's currencies has generally been moderate (except in the case of the Dominican Republic and, to a lesser extent, Jamaica and Mexico), and this has helped to keep inflation under control. In the six economies where the exchange rate had climbed sharply in 2002, the situation in the currency market in 2003 has eased considerably. The currencies of Argentina, Brazil and Paraguay have

Table 5
LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX AND EXCHANGE RATES
(Annual variation rates)

	Consumer prices			Wholesale prices			Exchange rate		
	2001	2002	2003	2001	2002	2003	2001	2002	2003
Regional total	**6.1**	**12.2**	**8.5**	**5.7**	**28.6**	**8.2**			
Argentina	-1.5	41.0	3.7	-5.3	118.0	1.3	0.0	243.7	-16.6
Barbados	-0.3	1.0	2.4	0.0	0.0	0.0			
Bolivia	0.9	2.4	3.4	7.0	9.5	4.1			
Brazil	7.7	12.5	9.2	11.9	35.4	6.0	20.4	53.5	-19.8
Chile	2.6	2.8	1.4	3.1	10.4	-1.2	16.4	4.9	-10.9
Colombia	7.6	7.0	6.2	6.9	9.3	6.1	5.7	21.9	1.1
Costa Rica	11.0	9.7	9.9	8.6	8.4	10.8	7.3	10.8	9.5
Ecuador	22.4	9.4	6.5	-5.6	17.7	-3.0	0.0	0.0	0.0
El Salvador	1.4	2.8	2.5	-4.9	4.7	1.5	-0.1	0.0	0.0
Guatemala	8.9	6.3	5.7	3.0	-3.9	5.3			
Haiti	8.1	14.8	40.8	14.4	42.2	7.7			
Honduras	8.8	8.1	7.2	5.0	6.3	4.5			
Jamaica	8.7	7.3	15.8	4.3	6.0	19.1			
Mexico	4.4	5.7	4.4	1.3	10.0	6.6	-2.9	11.2	9.0
Nicaragua	4.8	3.9	6.5	4.8	3.9	6.0	6.0	4.6	
Panama	-0.1	1.9	0.9	7.2	-3.4	0.0	0.0	0.0	
Paraguay	8.4	14.6	9.7	8.6	36.8	11.0	32.1	49.7	-11.1
Peru	-0.1	1.5	2.2	-2.2	1.7	0.8	-2.4	2.3	-1.1
Dominican Republic	4.4	10.5	45.8	2.8	25.9	80.4			
Trinidad and Tobago	3.2	4.3	3.8	-0.3	-0.2	-2.0			
Uruguay	3.6	25.9	9.9	3.8	64.6	19.5	13.1	93.5	5.7
Venezuela	12.3	31.2	27.5	11.6	53.5	46.0	7.7	75.6	21.0

Source: ECLAC, on the basis of official figures.

undergone significant revaluations, while in Haiti and Uruguay there have been slight devaluations and in Venezuela the bolívar has depreciated, but much less markedly than in 2002. These trends have contributed to declines in inflation in almost all of these countries, although of differing magnitudes. Even in the economies whose currencies have devalued in 2003, problems in connection with the exchange rate have diminished over the course of the year, and this has been reflected in a more moderate rise in inflation. The euro's appreciation against the dollar has partially counteracted the effect of greater exchange-rate stability in those countries that trade a great deal with Europe, however. The effect of higher oil prices on the international market has been just the reverse, especially in the non-oil-producing countries. The prices of other imported products have not influenced domestic prices, since they have remained relatively stable.

Wage adjustments have been moderate, even in countries which have recently witnessed inflationary surges. Adjustments in utility rates have also been small in almost all cases, and especially in Argentina, where agreements are being negotiated with utility companies. Supply shocks, especially those resulting from natural disasters, have not had much impact in 2003.

The countries have not resorted to indexation, as such, despite the inflationary spikes recorded in various countries in 2002 and to a lesser extent in 2003, as the authorities have blocked the reintroduction of corrective mechanisms as a means of offsetting price increases. In view of the small scale of the region's reactivation in 2003, the upturn has not contributed to inflation, especially since most of the countries currently have idle production capacity.

Inflation patterns in the various country subgroups

For 2003, the countries may be grouped into five categories according to their inflation patterns or their performance in this respect. First, there are the dollarized economies, such as Panama, where this system has been in place for a very long time. As is customary, Panama is once again posting a low rate of inflation. El Salvador, which also belongs to this group, has recorded a very low inflation rate, as it has been doing since before the introduction of the new exchange regime. This category also includes Ecuador, where inflation has declined again, although its rates are still above developed-country levels. In this case, two different stages can be discerned. In January, when public rates and charges were adjusted, the increase in prices accounted for almost half of the total for 2003; throughout the remainder of the year, the inflation rate has been very low. Lastly, Barbados, which has had a fixed exchange-rate regime for many years, has once again experienced low inflation.

A second group consists of those countries in which a monetary policy based on inflation targets is used as a nominal anchor, and these countries have likewise recorded quite small price increases. This category includes Chile, Colombia, Mexico and Peru. Chile has a rate of around 1.5% for 2003, the lowest in the past 60 years, mainly as a result of the strong revaluation of its currency. Peru has also exhibited very moderate inflation. Colombia's rate is somewhat higher, but is declining. In Mexico, inflation has fallen to below its 2002 level, despite a significant devaluation which has not appeared to affect domestic prices, probably because of the modest growth of the economy.

The third group includes countries with moderate inflation rates which generally have exchange-rate regimes based on sliding parities or crawling-peg currency bands. Costa Rica is posting an inflation rate of something less than 10% for 2003. This is similar to the rate recorded in 2002 and thus marks a break in the downward trend of previous years. In Guatemala, the only country in this group that has a free-floating exchange rate, inflation has fallen again, to an estimated 5.5%, or one point less than in 2002. This has been possible by the tight monetary policy applied by the Banco de Guatemala and the relative stability of the exchange rate. Inflation in Nicaragua began to increase in May, but the variation for 2003 as a whole will still be under 6%. Honduras is posting an annual rate of around 7% and has thus maintained the downward trend in this variable, thanks to the small scale of the adjustment made in its exchange rate. In Trinidad and Tobago inflation is also down, and the annual rate for 2003 is estimated at less than 4%. The decline in the exchange rate over the past few years has contributed to this result. In Bolivia, inflation has risen slightly, although it will only be just over 3% for the whole of 2003. The shortages caused by the serious political and social situation that arose in October did have an effect on prices, but after business activity returned to normal, inflation subsided to the low levels of the past few years.

The MERCOSUR countries, which have managed to bring the inflationary spike of 2002 under control in 2003, make up the fourth group. Almost all of them have moved from a fixed exchange regime to a system of floating exchange rates; Brazil has also begun to use inflation targets. The largest reduction has been in Argentina, where inflation has plummeted from 41% in 2002 to 4% in 2003; in Uruguay, it has fallen from 26% to 10%; in Paraguay, from 15% to 9%; and in Brazil, from 14% to 9.4%. The value of Argentina's currency decreased sharply in 2002, and this had a considerable impact on prices, but the stability of the exchange rate in the second half of 2002 and the subsequent revaluation in 2003 set the stage for the reduction in the rate. The same thing occurred in Uruguay in the second half of 2002, owing to the sharp devaluation of the currency. The slowing of the rise in its exchange rate beginning in the fourth quarter of 2002 and its revaluation in the second quarter of 2003, however, have made it possible to curb the rise in inflation, despite the large-scale adjustment made in public rates and in the prices charged by public enterprises. In Paraguay, inflation surged in the first quarter of 2003, but the rate of increase began to diminish in the second quarter, thanks to the fact that the guaraní had been appreciating since the start of the year. In Brazil, inflation accelerated in late 2002 as a result of the devaluation recorded between May and October, and it remained high in the first few months of 2003. It has been decreasing quite notably since then, however, primarily thanks to the real's revaluation over the course of the year.

The fifth and final group consists of the countries that have experienced high inflation in 2003. The sharpest price rises, between 41% and 46%, have been recorded by Haiti and the Dominican Republic. The rate of inflation is reported to have risen to 16% in Jamaica and to have eased in Venezuela, although it is still high (27%). In the Dominican Republic, inflation began to surge in August 2002, mainly as a result of the depreciation of the local currency, the rise in international oil prices and the elimination of electrical power subsidies. Matters were further aggravated by the serious banking crisis that erupted in 2003 owing to problems having to do with the solvency and liquidity of the system, as the substantial financial assistance that the central bank had to provide to commercial banks became one of the main components of quasi-fiscal expenditure. Haiti has witnessed sharp price rises in 2003, following the devaluation of its currency in the last quarter of 2002, which forced authorities to adjust fuel prices, thereby triggering a flare-up in prices. Inflation has been abating, however, ever since the exchange rate stabilized in February. The arrangement reached with the International Monetary Fund in May has helped to consolidate this improvement. Meanwhile, in Jamaica, inflation has been driven upward in 2003 by a 17% rise in the exchange rate. The bulk of this devaluation occurred in the first half of the year, and its effect on the rate of inflation has consequently tapered off during the second half. In Venezuela, inflation had begun to rise sharply in 2002, owing mainly to the elimination of the currency band, which sparked a sharp devaluation in the first half of 2002. The serious political and social disputes that have marked 2003 and the further devaluation of the bolívar then caused inflation to surge once again. The authorities responded by making further adjustments in economic policy, restoring the fixed exchange rate and imposing controls on sales of foreign exchange and on many prices. These steps have helped to curb inflation somewhat.

Prospects for 2004 are for lower regional inflation than in 2003. There are no fears of significant devaluations, and it is expected that the authorities will continue to apply monetary, fiscal and exchange-rate policies that place priority on price stability. In Brazil, inflation may continue to follow the downward trend that emerged in the second quarter of 2003, thanks to the stabilization of the exchange rate. Most of the remaining countries will continue to have low rates of inflation. In the case of the economies that have had high inflation rates in 2003, there are indications that not only will prices cease to rise but that they will probably begin to descend in at least some of these countries.

Employment and wages

Unemployment stays at record levels

The modest upturn in economic growth was not enough to improve the labour market situation. As a result of moderate increases in the employment and labour force participation rates, the unemployment rate for the year as a whole will probably remain virtually unchanged, edging upward by one tenth of a percentage point to 10.7%. Given the expansion of the labour supply, this small uptick in the unemployment rate means that about 700,000 more people have joined the ranks of the urban unemployed, bringing the total to 16.7 million. Real wages, reflecting the slack demand for labour, declined or stayed the same in most of the region.

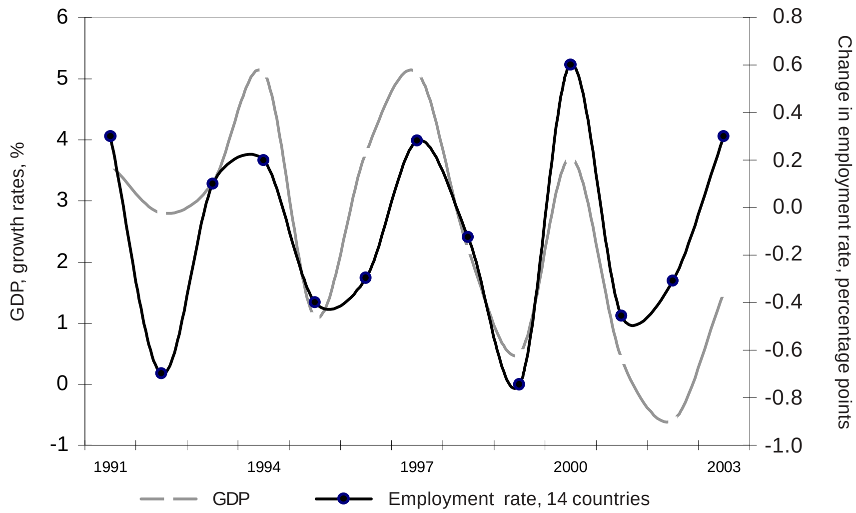
Employment conditions fail to recover from the deterioration observed in the “lost half-decade”

Thus, the region’s labour markets have shown only faint signs of improvement in 2003 after their main indicators suffered the impact of the “lost half-decade”.[35] Between 1997 and 2002 the employment rate fell from 52.9% to 51.8%.[36] Since firms’ demand for labour remained weak in those years, wage employment grew by only 1.6% a year, while total employment expanded by 1.8% and own-account labour, by 2.2%. As employment opportunities dwindled, the increase in the labour force participation rate – driven by women’s growing tendency to join the workforce – came to a halt and, between 1997 and 2002, dipped slightly from 58.2% to 58.0%.[37] In several countries large-scale emigration also contributed to this outcome. Unemployment rose to record levels, increasing from 8.8% to 10.6%. Real wages in 2002 stood at the same level as in 1997, according to the weighted average for the countries of the region. The progress made in reducing poverty in the early 1990s came to a standstill owing to the erosion of labour market conditions. The upshot was that the poverty rate held steady, while the absolute number of poor people swelled by 16 million between 1997 and 2002.[38]

As noted earlier, faster economic growth in the region as a whole raised the employment rate slightly in 2003, from 51.8% to 52.1% of the working-age population, owing primarily to the partial recovery of employment in Argentina and to moderate upturns in a number of other countries. In much of the region, however, the cautious stance that still prevails among firms is holding back labour demand. The proportion of

35 The unemployment, labour force participation and employment rates cited in this section have been adjusted to reflect the methodological changes introduced recently in Brazil (see box 3). For this reason, they do not coincide with the rates given in previous ECLAC publications.
36 The employment rate is the number of employed workers as a percentage of the working-age population. Since it isolates the effect of population growth, it is a more accurate reflection of employment growth than the job creation rate.
37 The labour force participation rate is the proportion represented by the economically active population out of the working-age population.
38 See the summary of the *Social Panorama of Latin America, 2002-2003*, which is posted on the ECLAC web page (http://www.eclac.cl/publicaciones/DesarrolloSocial/9/LCG2209PE/PSE_2003_Sintesis.pdf).

Figure 27
LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND VARIATION IN EMPLOYMENT, 1991-2003



Source: ECLAC, on the basis of official figures.

wage employment in the occupational structure has fallen in six of the 11 countries for which information is available (Argentina, Brazil, Chile, Panama, Uruguay and Venezuela), stayed the same in two (Mexico and Peru) and risen in only three (Colombia, Costa Rica and Ecuador). This indicates that precarious employment conditions, in terms of contractual status and social security coverage, probably became even more widespread in 2003.

The composition of the new jobs created, as described earlier, may help to explain why employment has risen faster than expected in view of recent trends, since in the 1990s economic growth of 1.5% would have resulted in a smaller increase in employment (see figure 27). Apparently, signs of economic recovery have improved the perception of employment opportunities, since the overall participation rate for the region as a whole, after having held steady for several years, has risen from 58.0% to 58.6%, with most of the increase concentrated in the region's large economies and a few of its medium-sized ones (Brazil, Mexico, Argentina, Chile and Venezuela). As labour demand has been slack in Latin America, a sizeable proportion of the increased labour supply must be engaged in non-wage-earning types of economic activity. This is probably why the employment rate has risen higher than the level that could be accounted for by the jobs generated as a result of labour demand on the part of firms.

Because the expansion of the labour supply overtook the growth of employment, region-wide unemployment went from 10.6% to 10.7%, as noted above. It is estimated that the simple average of the countries' unemployment rates has remained at 11.0%.

Sluggish labour demand hurts wages

The behaviour of real average wages in the region reflected both the sharp year-on-year declines that took place in countries experiencing or just recovering from severe economic crises and the impact of weak labour demand on nominal wages in most of the other countries. In the latter case, the combination of meagre nominal wage growth and low inflation translated into quite small changes in real wages (see table A-24 of the statistical appendix). As a result, in the group of 11 countries for which information is available the weighted average real wage fell by an estimated 4.7% and the median real wage, by 0.5%. Thus, labour market trends did little to revive domestic demand, since the modest upturn in employment was concentrated in non-wage-earning activities (which usually generate low income), while developments with respect to real wages in the formal sector did nothing to increase the purchasing power of households.

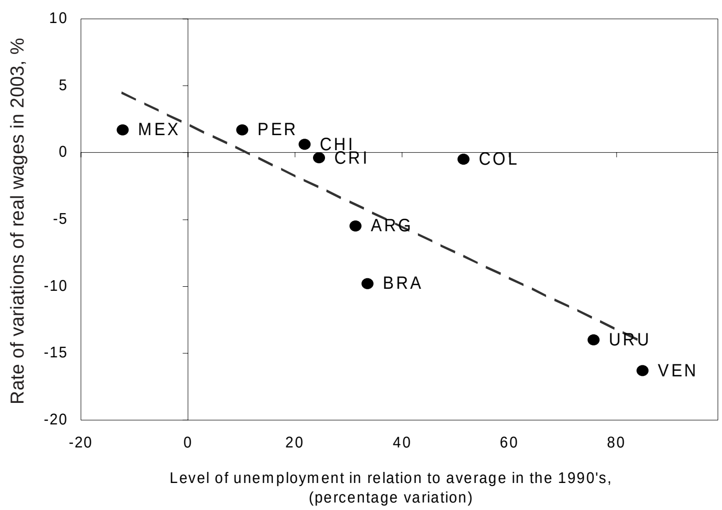
As noted in last year's edition of the *Preliminary Overview*, changes in inflationary patterns in 2002 largely accounted for the differences observed between countries with respect to the behaviour of real wages, especially in countries where inflation sped up significantly without being offset by comparable hikes in nominal wages. This correlation has not been observed in 2003, since in some countries real wages have failed to recover even though inflation has subsided.

This phenomenon stems mainly from the sluggishness of many of the region's economies in recent years, which have pushed up many countries' unemployment rates to levels higher than the medium-term average. When this happens, workers' bargaining power is weakened. As shown in figure 28, some countries experienced situations in which unemployment reached record levels and led to the erosion of real wages, even in contexts of declining inflation. Since institutionalized indexation mechanisms have fallen into disuse, nominal wage adjustments in these cases have been moderate (see figure 29). This has prevented wage inflation from resurfacing and has helped to curb the inflationary upsurges seen in 2002. In countries whose unemployment rates are within the usual medium-term range, on the other hand, changes in nominal wages usually offset the effects of inflation and reflect trends in labour productivity.

According to the small amount of information available, and as shown in figure 30, the correlation between labour productivity and income has been generally positive in 2003. For the preparation of

Figure 28

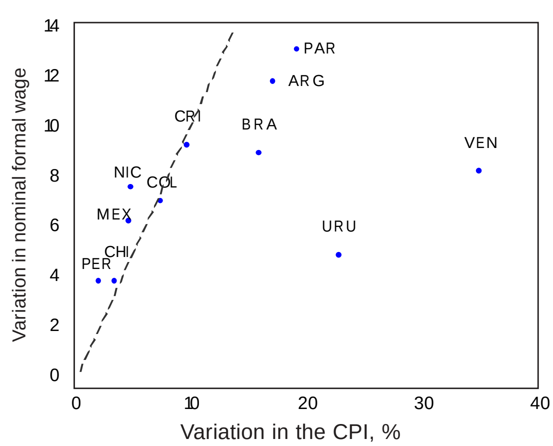
LATIN AMERICA AND THE CARIBBEAN: RELATIVE LEVEL OF UNEMPLOYMENT AND VARIATION IN REAL WAGES



Source: ECLAC, on the basis of official figures.

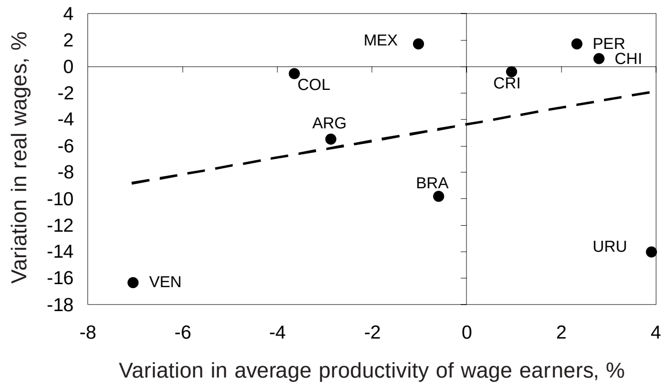
Figure 29

LATIN AMERICA AND THE CARIBBEAN: INFLATION AND NOMINAL WAGES, 2003



Source: ECLAC, on the basis of official figures.

Figure 30
LATIN AMERICA AND THE CARIBBEAN: LABOUR PRODUCTIVITY OF WAGE-EARNERS AND WAGES, 2003



Source: ECLAC, on the basis of official figures.

figure 30, changes in labour productivity were estimated on the assumption that economic growth was due exclusively to the increase in the number of wage earners, and these changes were compared to changes in real wages in the formal sector. In most of the countries this correlation is positive. Among the main exceptions are Brazil and Uruguay; in these cases the year-on-year comparison showed that in 2003 real wages were still suffering the effects of higher inflation in 2002, but the decline in real wages over the course of the year was much smaller. Moreover, and specifically in the case of Uruguay, average labour productivity rose substantially, although this improvement resulted not so much from the modernization of the production system as from massive job cuts.[39] Colombia, too, diverged significantly from the general trend, as its average labour productivity fell because of a strong upswing in employment (mainly wage employment), while real wages remained unchanged.

It may be concluded that, in countries where unemployment has stayed within the prevailing medium-term range, sluggish wage growth is mainly attributable to slow economic recovery and weak labour demand. At the same time, wages did not have inflationary effects and changes in wage levels had little influence on changes in unemployment levels. This outcome was achieved in part through the implementation of conservative minimum-wage policies, with the result that real minimum wages changed little in most of the countries.

Selected national experiences

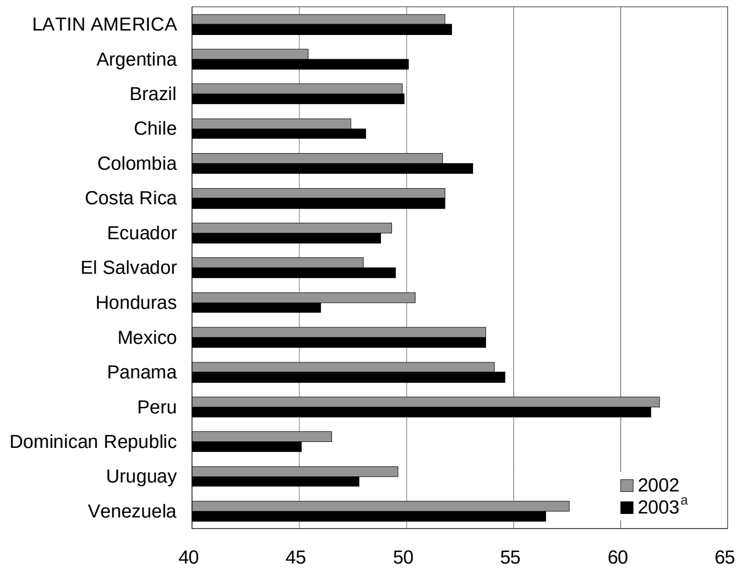
Region-wide trends are a synthesis of the different experiences of the various economies (see figures 31 and 32). Argentina's experience stood out in 2003, as employment continued to climb after having begun to pick up in late 2002, mainly as a result of the recovery of the tradable goods market, which benefited from the peso's real depreciation in 2002 and from the plunge in real wages caused by the spike in inflation that year. This recovery also stimulated formal employment, whose year-on-year growth reached positive rates beginning in March and amounted to 4.9% in September. Even so, the formal employment rate is still clearly below its pre-crisis levels. Employment growth was concentrated in activities that had benefited from exchange-rate movements since the abolition of the convertibility scheme. Accordingly, formal employment in agriculture, manufacturing and hotels and restaurants (because of the tourism boom) expanded by 5.8%, 7.7% and 8.8%, respectively, between September 2002 and September 2003. In construction, which had lost almost two thirds of its formal-sector jobs, employment soared by 42.7%. Meanwhile, employment has yet to show a significant upturn in a number of tertiary activities, such as social services, transport and financial intermediation.[40]

This rise in formal employment helped to push up the employment rate, although the figure for May indicates that the strongest boost was provided by own-

39 Between January-September 2002 and the same period of 2003 average employment in Uruguay slipped from 49.6% to 47.1% and the share of wage-earners in the occupational structure went down.

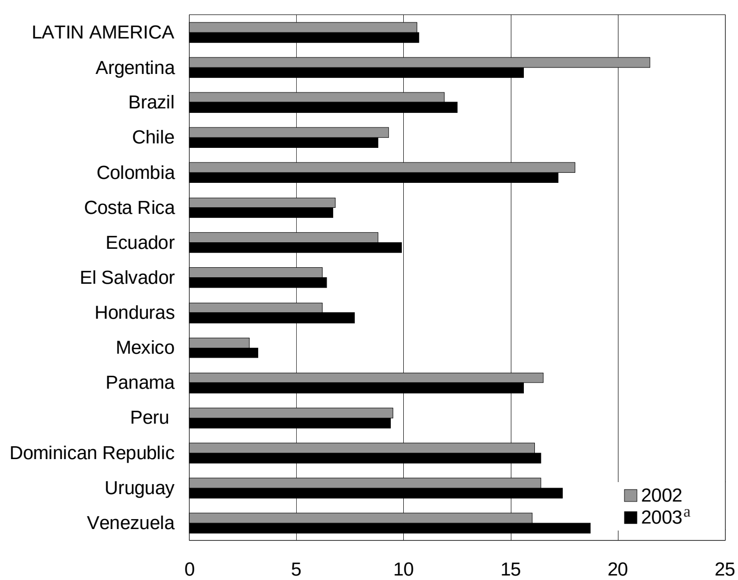
40 The expansion of formal employment in Argentina, like its earlier contraction, may be overestimated because it is based on information concerning contributors to the pension system. This means that changes in the incidence of evasion may distort the analysis of changes in formal employment.

Figure 31
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE
(Average January-September of 2002 and 2003)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimate.

Figure 32
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT RATE
(Average January-September of 2002 and 2003)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimate.

account employment. As employment rose, unemployment dropped sharply –despite the increase in the participation rate– and underemployment subsided somewhat.

Real wages followed a pattern similar to that of formal employment. Since June –in an environment of rapidly falling inflation– the year-on-year variation has been positive. Because of a statistical effect due to the steady decline observed in 2002, however, the average real wage level for 2003 will probably still show a loss, albeit a moderate one, with respect to the 2002 average.

None of the other countries experienced comparable increases in employment levels. The ones with moderate rates of economic growth, including Chile, Colombia, Costa Rica, Panama and Peru, typically show slight improvements in some of the main employment variables. However, the limited nature of these improvements, together with adverse trends in other variables, indicate that these countries' labour markets have not yet visibly recovered from the economic doldrums of earlier years.

Be that as it may, these countries' labour market situation nonetheless shows some incipient improvements. In the region's two biggest economies –Brazil and Mexico–, on the other hand, employment indicators are still weak as the year draws to a close. While the analysis of Brazil's performance in this regard is hampered by methodological complications (see box 3), the country's unemployment rate has climbed steadily all year, with a January-to-September average of 12.5%. This is the result of a sharp rise in the participation rate, which has overtaken the increase in the employment rate. At the same time, the proportion of wage earners in the occupational structure has fallen from 72.3% to 71.5%. This reflects the listlessness of labour demand, which is also to blame for the sudden drop in real wages in the formal private sector (the January-to-September average was down by 10% in comparison to its level in the year-earlier period), as inflation exceeded its 2002 level but began to decline in mid-2003.

Likewise, in Mexico the combination of a small upturn in labour force participation and stalled employment growth drove up the rate of unemployment. Real wages rose slightly in a context of falling inflation, and the year-on-year growth of formal employment was negative beginning in April. In particular, manufacturing employment contracted, partly because the incipient recovery of maquila activity early in the year failed to pan out. Following the sharp drop in employment in response to the economic slowdown in the United States in 2001, maquila employment crept upward starting in the second quarter of 2002, but stopped rising in mid-2003 and again showed negative year-on-year growth rates.

Lastly, in the two countries whose economies contracted –the Dominican Republic and Venezuela– the labour market situation worsened considerably. Employment went down and unemployment went up in both countries, while real wages suffered severe losses.

The employment situation is expected to improve somewhat in 2004, as the economic recovery experienced in most of the countries gains momentum. In view of the region's projected economic growth, unemployment should decline by about half a percentage point, to just over 10%. It is likely that the main factor behind this improvement will be a further increase in the employment rate, brought about by stronger labour demand on the part of firms. At the same time, real wages should stop falling in the countries that saw the sharpest downturns in 2003, while in other countries lower inflation and higher labour demand should result in a modest rise in the real wages paid in the formal sector.

Box 3

CHANGES AND PROBLEMS IN MEASUREMENT METHODOLOGIES

Labour market trends are analysed largely on the basis of the findings of the household surveys conducted regularly in most of the region's countries. Changes in the methodology used can make this task more difficult.

Since October 2001 the Brazilian Institute for Geography and Statistics (IBGE) has used a new methodology in its Pesquisa Mensal de Emprego (PME), or monthly employment survey, which is carried out periodically in the six major metropolitan areas. Up until December 2002 it continued to use the old measurements in parallel with the new ones so that it could analyse the impact of the change of methodology. The main differences are the following:

– The lower age limit of the working-age population is set at 10 years instead of 15;
– Unpaid workers are classified as employed if they work one hour a week instead of 15;
– People who are not working are classified as unemployed if they sought employment in the 30 days prior to the survey, whereas the main variable calculated under the old system counted only those who had sought work in the previous 7 days.

In addition, the design of the questionnaire was altered and its geographical coverage was updated to include municipalities that had not previously belonged to the metropolitan areas studied.

The main effect of the first change is a drop in the participation and employment rates, that of the second is a slight increase in the employment rate and that of the third is an increase in the unemployment rate. A special study conducted by IBGE showed that the changes in the questionnaire helped to increase all three of these rates (by increasing the number of people regarded as economically active in both the employed and unemployed categories) and to reduce the rate of inactivity. Lastly, the inclusion of additional municipalities had little effect on the principal rates.

The most significant of all these effects were the ones that resulted in a lower participation rate, a lower employment rate and a higher unemployment rate. Beyond the change in the levels of these rates, however, the analysis of the data obtained using the new methodology revealed a very strong upsurge in employment throughout 2002. This increase is not observed when the old PME methodology is used or in other employment measurements such as the Pesquisas de Emprego e Desemprego (PED) (employment and unemployment surveys) conducted in six metropolitan areas under the coordination of the State System for Data Analysis (SEADE) Foundation and the Inter-Trade Union Department of Statistics and Socio-Economic Studies (DIEESE). Moreover, the Brazilian economy's performance in 2002 does not appear to substantiate such a marked upturn in employment. The steady rise in the employment rate throughout 2002 also has the effect of sharply increasing the employment rate in the year-on-year comparison for 2002-2003. Since this phenomenon apparently reflects an adjustment of the new methodology in the initial months of its application, and in order to obtain an accurate view of labour market trends in Brazil (and in Latin America) in 2003 in comparison to 2002, the data for 2002 were adjusted for this edition of the Preliminary Overview. Specifically, with respect to labour market dynamics in Brazil in 2002, the findings obtained using the old PME methodology were used. To make them comparable to the 2003 data (obtained with the new methodology), the levels of the figures were adjusted in accordance with the data generated using the new methodology for the fourth quarter of 2002.

Similarly, the analysis of labour market trends in Ecuador in 2003 was complicated by changes in the samples used. Starting in February the sample for Ecuador's labour market survey, which is carried out every month in the cities of Cuenca, Guayaquil and Quito, was updated on the basis of new census information. As a result of the inclusion of a number of new neighbourhoods, the survey identified a very high participation rate and a moderately higher employment rate, which led to a "statistical" increase in the unemployment rate. Thus, the available information also makes it hard to conduct a year-on-year comparison in the case of Ecuador.

LATIN AMERICA

Argentina

The Argentine economy rallied strongly in 2003. GDP grew by 7.3%, reversing much of the sharp fall (10.8%) recorded in 2002. Investment was the most dynamic component of domestic demand and the unemployment rate declined, even though the social situation remained a cause for concern. The balance-of-payments current account position was once again very positive, with exports being buoyed by stronger international prices and imports picking up considerably from the low levels observed the preceding year. Private capital outflows were lower than the year before, and the central bank was able to build up its reserves. The annual variation in the consumer price index (CPI) was below 4%. Tax revenues were sharply higher, helping to expand the public sector's primary surplus in line with projected levels. The government succeeded in signing agreements with IMF and normalizing its relations with multilateral agencies. The public debt issued since 2002 has been serviced and the remainder of the government's securitized debt now has to be restructured. The authorities have announced their intention to consolidate MERCOSUR as a partnership and as an instrument for interregional negotiation (trade negotiations within the framework of the Free Trade Area of the Americas (FTAA), with the European Union and with the member countries of the Andean Pact). In general terms and barring any unexpected disruptions, no significant changes are anticipated in the country's economic performance in the near future.

Argentina's relationship with IMF has had its ups and downs. In the early days of the year, the absence of any agreement with the Fund generated a tense situation; in fact, multilateral agencies did not refinance maturing loans, and the country then defaulted on those credits. In January, Argentina signed a provisional agreement covering the period up to the end of August which provided for loan rollovers. Once this period elapsed, it negotiated a three-year programme with the Fund, which was signed in September. The size of the primary surpluses to be attained in the years to come and policies on public services were some of the controversial issues to be addressed. The government has not authorized rate increases, which are henceforth subject to the review and renegotiation of contracts with the supplier companies.

The government's proposal for restructuring its outstanding debt (US$ 60 billion) was based on a hypothetical future primary surplus equivalent to 3% of GDP and on the assumption that its liabilities with multilateral agencies would remain constant in terms of principal and interest rates. Debt issued since the end of 2001 was to be excluded from the restructuring under the proposal. Reductions in face value or interest were offered as options, and consideration was given to the possibility of issuing bonds whose payments would be indexed to GDP growth. Creditors were reluctant to negotiate on the basis of this proposal, however.

In 2003, the consolidated public-sector primary surplus amounted to the scheduled level of 2.5% of GDP. Government tax receipts increased by 45% in the first 10 months of the year compared with the same period of 2002, with taxes on foreign trade accounting for 16% of the total. Profit and personal property taxes were also up sharply (84%). The rise in value added tax (VAT) receipts, which at 36% outstripped nominal GDP growth, suggests a higher degree of compliance. Taxes earmarked for social security climbed at a slower rate (17%). Central government primary expenditure increased by almost 30% in the first nine months (17.5% of GDP, in comparison to 16.8% in 2002). Staff and social security expenditure went up following a judicial decision rescinding the reductions in wages at the higher end of the pay scale that had been introduced in 2001. The increase in transfers (41%) was consistent with a better distribution of taxes within the framework of a tax-sharing regime between the federal government and the provinces and with social welfare plan payments.

Total public debt, including arrears, is estimated to have stood at US$ 185 billion, a figure equivalent to 140% of annual GDP. Of this total, US$ 31 billion corresponded to multilateral agency loans, US$ 28 billion represented loans from local financial entities arising from bond swaps conducted in 2001 and US$ 10 billion was in the form of provincial debts guaranteed by the national government. The debt issued since early 2002 in order to compensate depositors and banks for the effect of the conversion of their deposits and loans to pesos stands at around US$ 20 billion.

The greater demand for real money balances continued in 2003. In October, the year-on-year growth rate of broad money, which includes quasi-monies, exceeded 40%. Primary money creation was mainly a reflection of purchases made by the central bank on the foreign exchange market (close to US$ 5.4 billion in the 12-month period ending in October) and was sterilized in part by issues of central bank bills (LEBAC). The yields offered on 90-day securities declined from a nominal annual rate of 11% at the end of 2002 to 3% in October 2003, which reflected lower expectations of inflation and devaluation. Money in the hands of private individuals (including quasi-monies) expanded by almost 35% between October 2002 and October 2003. The greater demand for money implied a willingness by individuals to hold liquid assets in pesos. The increase in currency outside banks as a percentage of M1 was probably a consequence of the tax on bank credits and debits and the scale of the informal economy.

ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

Certificates of deposit issued as a result of the rescheduling of time deposits that took place the preceding year decreased from 23 billion pesos at the end of 2002 to 6 billion in October 2003. The difference reflects the decision taken by a group of depositors to forgo the option of accepting funds in pesos and to pursue judicial proceedings demanding a refund in dollars. In the same period, voluntarily constituted time deposits increased from 13.7 billion to 31.4 billion pesos. However, demand for time deposits has remained significantly below pre-crisis levels. The Supreme Court has ruled that the deposits that were converted into pesos in 2002 ("pesification") should be returned in dollars. The government has offered the bearers of these certificates a bond to cover the difference between the value of the asset and the dollar amount of the original deposit.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-4.4	-10.8	7.3
Consumer prices	-1.5	41.0	3.6[b]
Real wages[c]	-0.6	-13.9	-2.0[d]
Money (M1)	-13.0	37.4	48.8
Real effective exchange rate[e]	-1.9	137.7	-8.6[f]
Terms of trade	-0.6	-1.0	8.6
Annual average percentages			
Urban unemployment rate	17.4	19.7	15.6[g]
Central government fiscal balance/GDP	-3.8	-0.3	-0.2
Real deposit rate	18.3	1.5	9.0[h]
Real lending rate	28.8	29.7	18.9[h]
Millions of dollars			
Exports of goods (f.o.b.) and services	30 846	28 643	32 770
Imports of goods (f.o.b.) and services	27 360	13 010	17 305
Current account	-4 429	9 590	8 994
Capital and financial account	-17 030	-25 208	-16 216
Overall balance	-21 459	-15 618	-7 222

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Manufacturing.
[d] Estimate based on the average from January to September.
[e] A negative rate signifies an appreciation of the currency in real terms.
[f] Variation from December 2002 to October 2003.
[g] May.
[h] Average from November 2002 to October 2003, annualized.

Banking operations took place within the framework of a high level of liquidity. The deposit rate decreased from an annual rate of 23% in December 2002 to 4.5% in October 2003.[1] Lending rates also fell, but the volume of loans to the private sector contracted by 16.4% in nominal terms in the period from October 2002 to October 2003.

Domestic demand showed a significant upturn. In fact, private consumption expanded, while the domestic saving rate was higher than its pre-crisis level and fixed investment was close to 13.5% of GDP (11.3% in 2002 and 15.8% in 2001). Investment in machinery and equipment rallied considerably, driven by demand in the agriculture sector and some branches of industry. Construction rebounded despite the absence of mortgage credit, and this was reflected in higher sales and rising real estate prices.

Activity in the goods production sectors picked up more strongly than total GDP. For the first few months of 2003, the industrial production index was 28% higher than in the same period of the preceding year. The 2002-2003 grain harvest yielded a record 70 million tons, while a strong expansion in the cultivation of soybeans was a particularly conspicuous trend during this period. Textiles and engineering products other than motor vehicles were also buoyant; the upturn in these industries is all the more noticeable because its starting point is provided by the very low levels recorded when the devaluation had pushed up the cost of imports. Construction materials, chemicals and basic metal products experienced an upswing that had them operating at close to the limit of their capacity. Food and motor vehicle production also recorded increases, albeit slight ones.

Prices did not reflect the upturn in domestic spending. The increase in the CPI in the 12-month period ending in November 2003 was 3.6%, and relative domestic prices showed a moderate increase. The appreciation of the currency implied a decrease in the real exchange rate, which, in any event, remained at historically high levels.

The unemployment rate (15.6% in May) was down sharply from its 2002 high, when it stood at 21.5%. This decline was due to a considerable rise in employment, which exceeded the increase in the labour force participation rate, owing in part to the assistance programme that has been set up for male and female heads of household, which benefits approximately 2 million people. Employment rose significantly in the manufacturing sector (by slightly more than 6% between the third quarters of 2003 and 2002) and in commerce, while it declined in financial services. In any case, labour informality remained very high. Real wages in the private sector recovered slightly thanks to the lump-sum increases decreed by the authorities.

The current account registered a surplus of close to 7.6% of GDP. The trade balance (f.o.b.) exceeded US$ 16 billion, since the increase in imports was largely offset by the higher value of exports. Owing, for the most part, to the higher profits and dividends of foreign companies, the financial services deficit (which includes total interest due) widened. The current account surplus was partly counterbalanced by capital outflows, and there was a build-up in international reserves.

1 On 30-day time deposits.

The private sector again recorded a net capital outflow, which, although significant, was much lower than that of 2002, while the public sector's arrears in external markets accumulated. International financial institutions refinanced most of the maturities corresponding to principal, but not interest.

Exports grew by 14%, largely as a result of price rises (8.6%). The expansion was based on soybeans and its by-products, which accounted for more than half of the total year-on-year increase recorded in the first nine months of 2003. Other commodity exports were also higher in value terms, including cereals, meats, fruits and fishery products. Industrial exports declined owing to slacker demand from Brazil. In fact, exports to MERCOSUR again diminished as a percentage of total external sales to 18.5% in the first nine months. By contrast, sales to China expanded considerably and accounted for more than 9% of total exports.

Imports expanded by almost 50%, starting from an extremely low base value, and were led by capital goods (which increased by over 70% from one nine-month period to the next) and intermediate and consumer goods (around 45% in both cases).

Bolivia

A grave crisis that broke out in September culminated in the resignation on 17 October of President Gonzalo Sánchez de Lozada and his replacement by Vice-President Carlos Mesa. The outgoing government failed to rally public consensus on a project to export gas to the United States, fiscal adjustment measures or the coca eradication programme. October saw the start of a transition period in which the new authorities continue to grapple with the challenges they have inherited and in which institutional changes may occur in strategic areas, including the hydrocarbon sector.

The crisis arose against a backdrop of slow economic growth and the dichotomy that has emerged between an export boom and a languishing domestic market. Between 1998 and 2003 economic growth averaged only 1.9% a year, compared to 4.4% in the period 1990-1998. Growth is expected to be around 2.5% in 2003, meaning that per capita GDP will continue to trail its 1998 level (by 2.2%). Since that year Bolivia has suffered from a drop in the prices of several of its exports, the coca eradication programme and slack demand from neighbouring countries. Although there are a few buoyant areas –gas extraction and soybean cultivation– these are non-labour-intensive activities, and thus have done little to attenuate the high rates of informal employment and poverty.

Tight macroeconomic constraints have limited the capacity for policy implementation. Social security reform (1997) was implemented at a high fiscal cost (5% of GDP) and the highly dollarized financial system makes monetary policy ineffective. Moreover, the government that emerged from the 2002 elections is made up of a fragile alliance of parties.

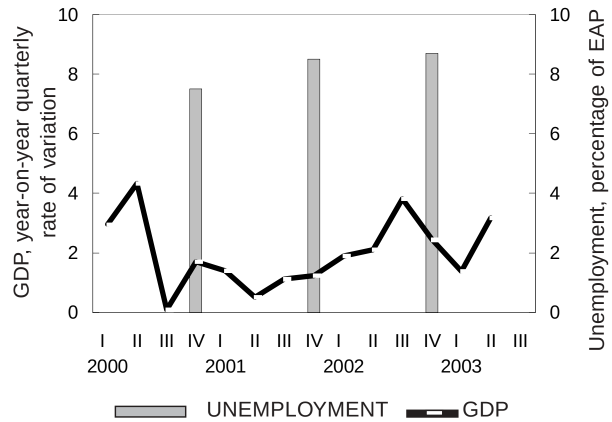
The macroeconomic problems stem mainly from the huge non-financial public-sector deficit, which amounted to 8.9% of GDP in 2002. The agreement signed in April 2003 with IMF provided for this deficit to be reduced to 6.5% (1.6% excluding pensions). The target contemplated increasing revenue by eliminating exemptions, increasing tax receipts from hydrocarbons and giving greater powers to the tax authority. In order to reduce current expenditure, the authorities planned to abolish certain ministries, cut central government spending and eliminate the problem of fraudulent pensions.

However, between January and September the fiscal situation deteriorated so badly that the deficit increased by 10% in nominal terms (6.6% in real terms), while total revenue and expenditure grew by 10.8% and 10.6%, respectively. The major factor in this development was a 14.4% increase in current expenditure, while public investment contracted by 2.3%. New ministries were established as a result of negotiations within the coalition that governed up to October, and the authorities increased outlays on wages and on the procurement of goods and services; net interest payments on the public debt also rose. The increase in fiscal income, though appreciable, could not contain the expansion of the deficit. Approximately 60% of that rise came from taxes on hydrocarbons, 30% from external grants and the remaining 10% from revenues linked to domestic activity (VAT and customs revenues, among others). Some 65% of the deficit was financed with external loans and the remaining 35% through domestic borrowing.

The political crisis was one of the reasons why fiscal accounts veered out of control and domestic activity contracted, although the decision by PETROBRAS to increase gas purchases immediately after the change of government boosted revenues in the last few months of the year. Nevertheless, the deficit is expected to stay close to its 2002 level, although the figure could be lower if the international community responds positively to the new authorities' appeal for additional aid. Meanwhile, it is estimated that the deficit will stand at US$ 100 million in the last two months of the year.

Political instability and the slower pace of domestic activity have been weakening the financial system since 2002. In 2003 the system faced two critical junctures, the first of which resulted from the disturbances in February, which caused deposits to slip by 4.1% from their level of late December 2002, when they had already fallen by 13% since 2001. Deposits later recovered but, because of the September-October crisis, their level was 6.7% lower than it had been in December 2002. In October approximately US$ 200 million in deposits were withdrawn and consolidated net international reserves (of the central bank and commercial banks) slumped by US$ 140 million. The central bank injected liquidity into the economy, modifying the composition of consolidated

BOLIVIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

reserves by recalling liquid assets held in commercial banks outside the country, which made it possible to expand the monetary base and deal with the decline in deposits.

These critical situations had repercussions on interbank interest rates in dollars (normally between 1% and 2%), bringing them to maximum levels of 4% and 5% in February and October, after which they started to subside. The nominal lending and deposit rates for bank deposits in dollars, which account for 90% of the total, followed a downward trend throughout the year. In November the average nominal rate in dollars charged by the banks was 9.7%, which compares with 11.3% in December 2002. This decline reflects the fall in international rates, the weakness of domestic activity and lending activity and the abundant banking liquidity caused by the prevailing uncertainty. All these problems are reflected in the percentage of overdue loans: 18% in October, as against 9% at the beginning of 2000.

The crawling peg system applied since 1998 started to experience problems in 2002 owing to the massive devaluations that occurred in the currencies of the MERCOSUR countries. Despite the boliviano's nominal devaluation against the dollar (9.5%) in 2002, the currency effectively appreciated –bearing in mind all of Bolivia's trading partners– by 4.6%. In 2003 the opposite occurred. In real effective terms, in October the boliviano had depreciated by 12.3%, with the rate of exchange returning to the July 1995 level. Up to October the boliviano reflected a 4% nominal devaluation against the dollar.

In the first half of 2003 GDP grew by 2.3%; the annual rate is estimated at 2.5% (2.7% in 2002). In the first six months domestic demand contracted by 0.9%

BOLIVIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.6	2.7	2.5
Consumer prices	0.9	2.4	3.3[b]
Real wages[c]	3.8	3.2	…
Money (M1)	7.7	5.6	10.9
Real effective exchange rate[d]	3.6	-4.6	12.3[e]
Terms of trade	-1.3	-0.5	4.9
Annual average percentages			
Urban unemployment rate	8.5	8.7	…
Non-financial public-sector fiscal balance/GDP	-6.9	-8.9	-9.0
Nominal deposit rate[f]	2.2	2.9	1.7[g]
Nominal lending rate[f]	12.9	11.3	9.7[g]
Millions of dollars			
Exports of goods and services	1 521	1 545	1 793
Imports of goods and services	1 980	2 048	1 940
Current account	-274	-335	-47
Capital and financial account	237	43	8
Overall balance	-37	-293	-39

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private sector in La Paz.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation from December 2002 to October 2003.
[f] Average annual rate in dollars.
[g] Average to November.

with respect to the same period of the previous year. Investment declined by 14.2% owing in large part to the completion of the Yacuiba-Río Grande gas pipeline, and private consumption expanded by a mere 1.3%. In constant prices, imports shrank by 4%, while exports grew by 8%. It is estimated that in 2003 gross fixed capital formation, measured in constant 1995 dollars, represented 13.2% of GDP (15.9% in 2002).

In the last quarter of 2003 gas production increased to levels that will probably be maintained or surpassed in 2004, which will also see the construction of a gas pipeline to northern Argentina and a significant expansion in soybean production.

In November accumulated 12-month inflation was 3.3%, which was higher than the target agreed upon with IMF for the year (2.8%). Inflation picked up speed in July and August and spiked in October as a result of the shortages engendered by the crisis. In November, however, price levels were lower than they had been in October, so that the year could end with a figure not far from the target. There are no available data on employment and wages for 2003, but the pattern of domestic expenditure suggests that these variables deteriorated; in 2002 urban employment stood at 8.7%.

Exports grew by 17% in 2003, to US$ 1.5 billion, as a consequence of increased sales of gas, soybeans, tin and silver. The last three items benefited from notable price rises which brought about a 4.9% improvement in the terms of trade. A significant proportion of the soybean crop was marketed in primary form, since Venezuela and Colombia cut back on purchases of soybean products. Textile exports, although still modest, expanded somewhat. During the year imports reflected the sluggish state of the domestic market and are estimated to have slumped by 11%, resulting in a small surplus on the country's merchandise trade balance.

Brazil

Brazil experienced limited growth of 0.1% in 2003. Inflation stood at an estimated 9.2% in 2003, while country risk went down to 600 basis points, much lower than the 2,396 points recorded at the end of the third quarter of the previous year. Economic policy was geared to curbing inflation, strengthening public finances and regaining access to international financial markets at lower cost. In order to achieve these objectives, the new authorities used three main instruments: a nominal anchor in the form of inflation control targets, a floating exchange-rate regime and public-sector reforms, specifically of social security and the tax system.

Economic growth was driven by the growth of the external sector; indeed, the increase in exports (20% in terms of value and 14.8% in terms of volume) far exceeded the expansion in imports, which represented only 2.5%. Consequently, the merchandise trade surplus is estimated to be US$ 24 billion and the current account surplus, US$ 2.7 billion or 0.6% of GDP, compared to –2% of GDP the previous year. With respect to domestic demand, both consumption and investment contracted, the latter by 7.5%, and the investment-to-GDP ratio was below 18%, one of the lowest percentages in the last decades. Unemployment in the main metropolitan areas, calculated using a new methodology, increased to 12.4% in 2003 from 11.7% in 2002 (January-October average).

The growth rate is projected to exceed 3% in 2004, boosted, among other factors, by domestic activity, which started to show signs of recovery in the last quarter of 2003. On the external front, the country will have to settle payments totalling US$ 40 billion. At the same time, to maintain the primary surplus target of 4.25% of GDP on the public accounts, which is higher than the level agreed with IMF (3.75%), the authorities will have to keep a tight rein on expenditure policy so that they will not have to make any further adjustments. The inflation target is 5.5% with an allowable deviation of 2.5% in either direction, which is lower than the 2003 target of 8.5% with a similar deviation allowance. In terms of medium- and long-term strategy, the government presented proposals for a comprehensive tax reform, as well as reform of the retirement and pension system for civil servants, which represents the main component of the social security deficit; the relevant measures were adopted at the beginning of December. The growth strategy to be pursued under the multi-year plan is based on the expansion of consumption and is consistent with the objectives of improving the social situation and introducing changes in income distribution. In terms of foreign policy, the authorities have given priority to South America, especially the MERCOSUR countries, in order to secure market access through international negotiations and the joint development of new markets in Asia, Eastern Europe and Africa with the members of this group. Lastly, the government announced that it would draw for a further year on the assistance provided by the IMF programme, which offers access, if need be, to additional funds of almost US$ 10 billion. This was in addition to the successful renegotiation of repayment schedules with IMF.

At the end of November the government announced a major package of export promotion measures consisting, among other things, of the elimination of value and maturity restrictions on operations conducted under the Reciprocal Credit Agreement established within the framework of the Latin American Integration Association (LAIA); the revision of the credit risk inherent in such operations, considering all countries as “low-risk”; the inclusion of all projects financed by international agencies in interest rate equalization programmes; broader participation by major firms in the credit line programme created for small and medium-sized enterprises; the unification of the Finance and Export Guarantee Committees; and the creation of a programme to give small and medium-sized enterprises incentives to produce goods for export. This set of measures will have a strong impact on export trends in the coming years.

BRAZIL: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.5	1.9	0.1
Consumer prices	7.7	12.5	11.0[b]
Real wages[c]	-5.0	-2.1	-9.4[d]
Money (M1)	18.2	20.2	6.6
Real effective exchange rate[e]	11.8	35.7	-20.9[f]
Terms of trade	-0.2	-3.1	0.5
Annual average percentages			
Urban unemployment rate	…	11.7	12.4[g]
Federal government fiscal balance/GDP	-1.3	-0.3	-1.1
Real deposit rate	9.1	6.1	9.5[h]
Real lending rate	31.0	28.7	29.7[h]
Millions of dollars			
Exports of goods and services	67 545	69 968	82 654
Imports of goods and services	72 653	61 863	63 980
Current account	-23 213	-7 695	2 713
Capital and financial account	19 763	-3 483	991
Overall balance	-3 450	-11 178	3 704

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between November 2002 and November 2003.
[c] Workers covered by social and labour legislation.
[d] Estimate based on the average for January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Variation between December 2002 and October 2003.
[g] Estimate based on the average for January to October.
[h] Average from November 2002 to October 2003, annualized.

The main objective of fiscal policy was to raise the primary surplus to 4.3% of GDP and to control the expansion of public debt, which was exacerbated by the higher cost of exchange-rate-indexed securities and higher domestic interest rates. In the first 10 months of the year the public sector recorded a primary surplus equivalent to 5.1% of GDP; specifically, the federal government balance rose from 0.5% to 4.9% of GDP. The deficit of the social security system (1.4%) was offset by the surplus of the state governments and State-owned corporations (1.6% of GDP). By contrast to previous years, the central government achieved a higher primary surplus thanks to better control of spending, which declined by 1.3% in real terms; the central government wage bill declined by 0.5% and other non-financial current expenditure and investments were down by 0.8%. The slower pace of economic activity had an adverse effect on tax receipts and social security contributions. The pension system deficit increased by over 50%, rising to 1.4% of GDP, as a result of the increases granted to retirees and pensioners. Net public borrowing represented 57.2% of GDP in October, compared to 56.5% at the end of 2002, and public sector financing needs increased from 3.1% of GDP in January-October 2002 to 4.7% in the same period of 2003.

Early in the year the authorities raised the inflation target from 4% to 8.5% with an allowable deviation of 2.5% in either direction. They also decided to raise the benchmark nominal interest rate on government securities from 25% to 26.5% and the legal reserve requirement from 45% to 60% for demand deposits. In order to reduce exposure to the impact of a possible exchange rate increase, the government sought to reduce the amounts involved in swap or derivative operations, which offered investors in public securities the choice of applying either the domestic interest rate or the rate of currency devaluation. By this means, the government also managed to reduce its liabilities in exchange-rate-indexed securities. The monetary base and the money supply contracted by 4.8% and 3.7%, respectively, in nominal terms in the 12 months ending in October 2003. In February the central bank ceased intervening in the foreign exchange market in order to stop building up international reserves. Therefore, in the last few months the exchange rate stabilized at around 2.9 reais to the dollar, which reflects a 27% appreciation since September 2002. In the 12 months up to October 2003 the currency appreciated in real terms against the dollar, the yen and the other Latin American currencies (by 8.9%, 8% and 6.5%, respectively) and depreciated by 5.2% against the euro. The more promising economic outlook was reflected in the financial market, where stock exchange operations again expanded and the São Paulo Stock Exchange (BOVESPA) index reached a record level. Loans to private individuals expanded by 12.3% between October 2002 and 2003, while Brazilian companies resumed issues of securities abroad. Pre-set lending rates in local currency declined to an annual nominal rate of 47.1% in September 2003 after reaching 53.8% in March, while deposit rates on interbank certificates of deposit recorded an average of 20.88% in the same period, after arriving at a maximum of 26.25% in March.

Merchandise exports were the strongest component of demand, since export volumes were up by 14.8%. The higher exports were due to the sound performance of the agricultural sector and some branches of industry. Export prices rose by 4.5% thanks to the increase in the international prices of some commodities, such as soybeans, coffee and iron ore. Merchandise imports grew by only 2.5%, partly owing to the upturn in economic activity starting in August. The balance-of-payments

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

current account posted a surplus of US$ 2.7 billion, which compares positively to the US$ 7.7 billion deficit in 2002. The merchandise balance recorded a surplus of US$ 24 billion, compared to US$ 13 billion in 2002, while the services balance remained at levels similar to those of the previous year, with a US$ 5.3 billion deficit. The positive merchandise trade balance is attributable to the 20% increase in the value of exports, especially commodities (25%), while manufactures exports increased by 19%, boosted by a 90% expansion in sales to China and Argentina. The balance on the income account showed an improvement with respect to 2002, with a deficit of US$ 18.7 billion, while the capital and financial account recorded a balance of US$ 991 million. In net terms, foreign direct investment contracted from US$ 14 billion in 2002 to US$ 7.1 billion. Changes in the regulatory frameworks of the infrastructure and communications sectors, which generally attract this type of investment, have not yet been implemented. Net portfolio investment moved from a negative value of US$ 5.1 billion to a positive value of US$ 6.9 billion thanks to gross capital inflows into the stock market and a large surplus on the issue of fixed income instruments. Therefore, international reserves increased considerably to stand at US$ 54 billion in October, which represented an increase of US$ 16.3 billion in relation to the level reached at the end of 2002 and corresponded to 14 months' worth of imports. In accordance with IMF parameters, available reserves at the end of October stood at US$ 15.5 billion, which was 23% higher than the December 2002 value. In August total external debt, at US$ 214 billion, was 1.6% higher than it had been in December 2002 and 2.3% lower than in June 2003; the latter change was due to a 9.2% decrease in short-term debt between December 2002 and June 2003.

As in the previous two years, the different sectors of the economy performed unevenly. Beginning in August 2003 there were signs of recovery in the level of activity. The manufacturing industry has recorded continuous growth since then, with upturns in the production of capital goods and consumer durables in September. The agricultural sector again performed robustly, growing by more than 5%. The industrial sector presented a contraction of close to 1%, but the service sector was flat. Construction was down by approximately 8% in the first three quarters of 2003 in comparison to the same period of 2002. In terms of demand, all the major aggregates except external trade in goods and services contracted in the first nine months of the year. From January to September government consumption grew by 0.6% compared to the same period of 2002, while household consumption declined by 4.2%, which explains the marked downturn in domestic commerce.

Despite the rise in the rate of open unemployment, which went from 11.2% in October 2002 to 12.9% in October 2003 according to the new measurement methodology, the employed population increased in that period by 3.1% in the country's six largest metropolitan regions, while the EAP increased by 5.2% as a result of a sharp upswing in the activity rate, so that the unemployment rate went up.[2] Real average wages fell by an annual average of 9.5% owing largely to higher inflation.

2 See box 3.

Chile

Spurred by exports, Chile's economy expanded by 3.2% in 2003, for a rise of 2% in per capita GDP. Although still performing below potential, the economy therefore improved upon its 2002 growth rate of 2.1%. Exports were up by 12%, while domestic demand climbed by 2.4%. Gross fixed capital formation, calculated in constant 1995 dollars, increased by 2.3% and represented 21.8% of GDP, which was substantially lower than the 26.6% recorded in 1997 but higher than the 1999 figure of 21.5%. The rate of unemployment dropped to 8.5%, but remained high in comparison to the average for the first half of the 1990s (5.5%). Inflation trended downward throughout the year, partly thanks to the considerable appreciation of the Chilean peso against the dollar, which has enabled monetary policy makers to continue lowering the benchmark rate of interest. Consumer prices rose by 1% in the 12 months up to November, which was one percentage point below the floor of the monetary authority's target range (2%-4%). With respect to fiscal affairs, the central government deficit is set to come in at 0.8% of GDP. Chile's fiscal rule requiring a structural surplus of 1% of GDP permits fiscal spending to be isolated from temporary fluctuations in copper prices and in GDP, thus conferring greater stability in spending over the economic cycle.

The outlook for 2004 is bright, with growth projected at a rate of 4.5%. Although export growth is contingent upon an upturn in the global economy, the free trade agreements signed with the European Union (effective as of 2003), the United States (effective as of the beginning of 2004) and the Republic of Korea provide grounds for expectations of a larger volume of more freely flowing trade with those economies. This is significant, bearing in mind that exports account for one third of Chile's GDP.

In January 2003, Chile took advantage of improved conditions on the international financial markets and its own low country-risk rating to issue a US$ 1 billion sovereign bond on the external market. In the second semester, the government sought and obtained approval for a temporary rise of 1% in the VAT rate, which therefore moved up to 19% as of 1 October; this increase is intended to offset the downturn in tax receipts expected as a result of the new trade agreements signed in 2003. In July, the government announced a spending cut of US$ 300 million, which brought the central government's actual deficit to 0.8% of GDP, in keeping with the fiscal rule that requires a structural surplus of 1% of GDP. The budget for 2004 is based on a projected increase in tax revenues and high copper prices, which are expected to enable the central government to narrow its actual fiscal deficit to 0.6% of GDP. Lastly, the tax authority, through the Treasury General of the Republic, is to begin issues of domestic debt in the form of 20-year bullet bonds. This move should help to deepen the capital market.

In 2003, the rise in international copper prices, in combination with higher export earnings and inflows of financial capital attracted by the buoyancy of the local stock market, translated into a large inflow of dollars and a steady appreciation of the peso within the framework of the flexible exchange rate regime established in late 1999. By early December the currency had appreciated to a rate almost 20% above the low recorded in 2002. Despite exporters' complaints about the rise of the peso (the real effective exchange rate index dropped from 124.4 in February 2003 to 113.8 in

October), the central bank reaffirmed its decision not to intervene at this stage in the currency's climb. This suggests that it is reserving the right to intervene when the exchange rate suddenly soars to very high levels, as it did before the Argentine crisis in 2001 and when uncertainty about the Brazilian real peaked in 2002. The appreciation of the peso contributed to the downward trend of inflation in 2003, which dropped from an annualized high of 4.5% in March 2003 to just 1% in November. This put the authorities in a position to lower the monetary policy interest rate, which gradually declined from a nominal annual rate of 6.5% in December 2001 to 2.25% in December 2003.

Demand for real money balances remained high in 2003. The money supply (M1) expanded by almost 14% in real terms between October 2002 and October 2003. The increase in the demand for money was not accompanied by a higher demand for currency outside banks, however, which rose by only 3.9% in real terms. The annual rate of interest on deposits was a mere 3.5% in nominal terms, which may account for the real decline of almost half a percentage point recorded in M2 in the 12 months to October. Lending rates, meanwhile, climbed from their low point for the year (a nominal rate of 12% in May) to 15.5% in October, thereby broadening the interest rate spread. The rise in lending rates reflected a much faster expansion in consumer loans (12%) than in commercial loans, which remained at a standstill.

Manufacturing expanded more slowly than GDP, rising by 2.3% in the first nine months of the year with respect to the same period of 2002. The industrial production index displayed a year-on-year increase of 1.7% in the first 10 months of 2003, while mining expanded at a rate of 6.7%, followed by agriculture (5.1%) and electricity (4.9%). The output of the commerce and transport sectors rose at a lower rate, albeit still above 3% in both cases. Up to October, the supermarket sales index displayed a real variation of 10.5% with respect to the same month of 2002 and one of 9.2% for December.

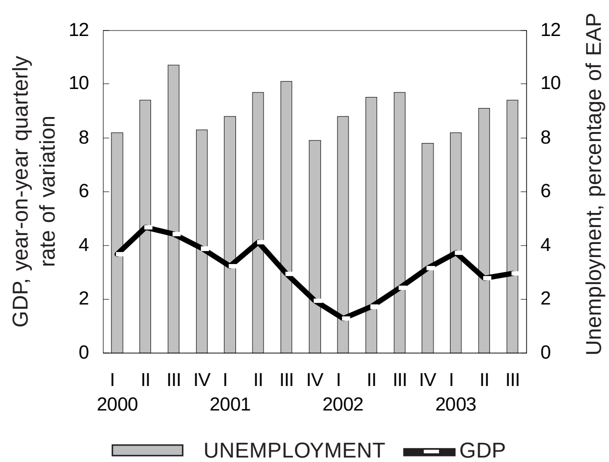
Chile posted a current account deficit of US$ 487 million, or 0.7% of GDP, while the trade balance yielded a surplus of over US$ 2.6 billion. Imports grew more quickly than exports, expanding at a rate of 13% thanks to increases in both the volume of imports (9.7%) and prices (3%). The upturn in imports encompassed intermediate goods (12% over nine months) and consumer and capital goods (7% and 5.5%, respectively). Exports climbed by 12% over the year in response to increases in both prices (5.5%) and volume (6.2%). The trade surplus was offset by a deficit of US$ 2.687 billion on the factor income account.

CHILE: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.2	2.1	3.2
Consumer prices	2.6	2.8	1.0[b]
Real wages [c]	1.6	2.1	0.8[d]
Money (M1)	12.6	12.8	16.9
Real effective exchange rate	12.3	-1.8	-1.1[f]
Terms of trade [e]	-6.9	0.0	2.4
Annual average percentages			
Urban unemployment rate	9.1	9.0	8.5[d]
Central government fiscal balance/GDP	-0.3	-0.8	-0.8
Real deposit rate	3.8	1.4	2.2[g]
Real lending rate	13.8	11.3	11.9[g]
Millions of dollars			
Exports of goods and services	22 571	22 300	25 186
Imports of goods and services	21 435	20 744	23 344
Current account	-1 192	-553	-487
Capital and financial account	596	752	269
Overall balance	-596	199	-218

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] General hourly wage index.
[d] Estimate based on average for January-October.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Average for November 2002 to October 2003, annualized.

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

The average rate of unemployment for the year is estimated to have been 8.5%, which represents a drop of half a percentage point with respect to 2002. Meanwhile, the employment rate rose from an average of 47.4% for the first three quarters of 2002 to 48.1% for the same period of 2003. Job creation was strong in community, social and personal services (4.3%); transport, storage and communications (3.3%); manufacturing (3.2%); and financial services (3.1%). By contrast, employment in commerce declined. As an average over the year, the real hourly wage rose by 0.8% with respect to 2002.

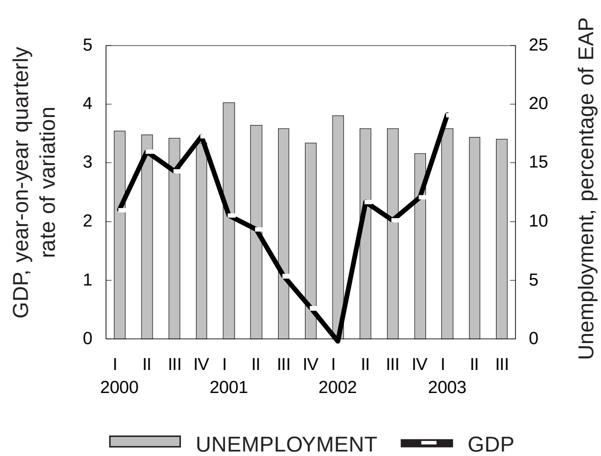
Colombia

Colombia's economy turned in a better performance in 2003. GDP rose by 3.4%, which was a significant improvement over the 2002 figure of 1.7%. Unemployment remained high, although the nationwide rate dropped from 15.7% to 14.4%. Fiscal policy was at the heart of the political agenda. After a referendum held in October returned unfavourable results, the government proposed new measures to boost revenues and cut spending, in order to meet the revised consolidated public sector deficit target of 2.8% of GDP. The authorities stabilized the nominal exchange rate in the latter months of the year, seeking to lower the rate of inflation, which gradually decreased to an annual rate of 6.1%. The monetary policy intervention rate, which was lower than the rate of inflation, rose from 5.25% to 7.25%, exceeding inflation in the final months of the year. The current account posted a deficit of about 2.2% of GDP, reflecting higher payments on external debt and a sharp downturn in exports to Venezuela.

The Colombian economy displayed an upswing in 2003 after growing slowly in the preceding two years. As noted above, GDP expanded by close to 3.4%; this represented a climb of 1.6% in per capita output, which surpassed the results of the previous five years.

The year began amid optimistic economic forecasts. The change of government and the economic programme raised expectations and boosted indicators of consumer and business confidence, fuelling a small upturn in demand and investment. The renewal and extension of the tariff preferences granted by the United States had a positive impact on the sectors concerned, including textiles, and the government announced that in April 2004 it would enter into negotiations on a free trade agreement with the United States. Meanwhile, a free trade agreement between the Andean Community and MERCOSUR was scheduled to be signed at the end of 2003.

COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

Fiscal affairs moved to the centre of political debate after the October referendum. The government had been taking measures to rein in the deficit since mid-2002, in view of concerns over the rapid expansion of public debt, which swelled from 30.8% of GDP in 1997 to 56.2% in June 2003. The fiscal programme for 2003 was designed to limit the overall consolidated public sector deficit to 2.5% of GDP. The executive branch proposed a number of initiatives by which this might be achieved, including a wage freeze and the imposition of administrative budget controls, as well as reform of the public pension system, particularly the special regimes for teachers and military personnel. These plans were put to a constitutional referendum in October, which returned a negative response. In addition, the proposed imposition, as from 2005, of an across-the-board 2% VAT rate on the basic goods and services in the household basket was declared unconstitutional, and the Constitutional Court issued a judgement prohibiting freezes on civil service wages.

In view of this situation, the government put together a package of measures to place fiscal affairs on a sounder footing and meet the revised target of 2.8% of GDP for the consolidated public sector deficit. These measures made up what was known as “Plan B”, which was geared towards dealing with the immediate problem (at the close of 2003) and planning for the coming years, from 2004 onward. The new adjustment plan included changes in the VAT regime, the elimination of income tax exemptions and the imposition of a new variable tax on pensions in excess of six times the minimum wage, as well as spending cuts.

In early November the government put this proposal to Congress, which made a number of alterations to it. The economic committees approved an increase in the tax on financial transactions (from 3 per thousand to 4 per thousand), the levy of a tax on assets for three years, a surcharge on income tax, a deduction from income tax for investments in productive assets and the rebate of two percentage points of VAT for purchases made with credit or debit cards. The increase in the VAT rate on beer was reinstated, along with the levy of a tax on gambling and the deduction of local taxes. The rise in VAT and in the tax on pensions was not ultimately approved.

In June the net debt of the non-financial public sector was 56% of GDP, which was lower than the figure of 60% recorded at the end of 2002. External debt accounted for close to 53% of total debt. The government conducted a number of transactions during the year to improve the maturity profile of the country’s domestic and external debt. The central bank (Banco de la República) will allow the government to use up to US$ 500 million in international reserves to pay off part of the external debt.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.4	1.7	3.4
Consumer prices	7.6	7.0	6.1[b]
Real wages[c]	-0.3	2.4	-0.4[d]
Money (M1)	14.2	18.8	13.2[b]
Real effective exchange rate[e]	0.0	14.5	2.7[f]
Terms of trade	-5.7	-1.9	2.0
Annual average percentages			
Urban unemployment rate[g]	18.2	17.6	16.9[h]
Central government fiscal balance/GDP	-5.3	-4.9	-4.7
Real deposit rate	4.6	1.8	1.2[i]
Real lending rate	12.4	8.8	8.2[i]
Millions of dollars			
Exports of goods and services	14 952	14 160	15 052
Imports of goods and services	15 873	15 392	16 482
Current account	-1 251	-1 639	-1 677
Capital and financial account	2 468	1 777	1 388
Overall balance	1 217	138	-289

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Manufacturing-sector workers.
[d] Estimate based on average for January-August.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Includes hidden unemployment.
[h] Estimate based on average for January-October.
[i] Average from November 2002 to October 2003, annualized.

In January 2003 the monetary policy intervention rate was 5.25% a year –below the rate of inflation, which was over 7%. The intervention rate was raised twice, however, in January and April, to 7.25%, where it stayed for the rest of the year. Real interest rates continued to be low in historical terms. The real deposit rate averaged 1.2% in the 12 months ending in October, while the real lending rate was 8.2% over the same period.

Money (M1) expanded by 13.2% in the 12 months ending in November, which represented a slowdown with respect to the rate of 18.8% posted in 2002.

The increase in inflation and the rise in the exchange rate in late 2002 and early 2003 prompted the central bank to intervene in the foreign exchange market by auctioning dollar call options. As a result, the nominal exchange rate remained very stable in the seven months up to November (between 2,826 and 2,845 pesos to the dollar), which had a somewhat moderating effect on inflation. In fact, the imported goods component of the producer price index shifted downward.

The 12-month rate of increase in consumer prices, which had quickened between April 2002 (5.7%) and April 2003 (7.9%), began to slow gradually in May owing partly to the wider availability of foodstuffs, and stood at 6.1% in November. This was close to the ceiling of the monetary authorities' target range of between 5% and 6%.

In 2003 the Colombian economy experienced a modest upswing. GDP growth was 3.4% between January and September, which was higher than the rate for the same period of 2002 (1.5%).[3] The sectors where the upturn was strongest were mining (12.5%), mainly because of increased coal production; construction (9.8%), owing largely to building projects; finance (5.4%); industry (4.2%); and commerce (4.1%). Gross capital formation moved up from 15.8% of GDP in 2002 to 16.3% in 2003. Private consumption remained slack, however.

The labour market showed some signs of bouncing back, though unemployment continued to be high. The economic upturn helped to lift the employment rate slightly. In the first 10 months of 2003 urban unemployment in 13 metropolitan areas averaged 16.9%, compared to 17.6% a year earlier. The employment rate (53.4%) rose by nine tenths of a percentage point and the labour force participation rate (64.4%), by four tenths of a point, while underemployment (32%) dipped by just six tenths of a point. Thanks to a good economic performance in rural areas and small cities, the nationwide rates of unemployment and underemployment dropped further, from 15.7% to 14.4% and from 34.8% to 31.7%, respectively, while the employment rate rose by more than one point (53.1%) and the participation rate, by six tenths of a point (62%).

The financial sector performed well in 2003, with progress in indicators of portfolio growth and quality, especially in the commercial and consumer portfolios. All the entities in the sector enjoyed an increase in profits, while the process of real credit contraction seen in recent years came to a halt.

After the initial negative impact of the plunge in exports to Venezuela, these exports began to climb again in the second half of the year, and grew by 7.7% over the first nine months with respect to the same period of 2002. The rebound was driven by traditional exports, which expanded by 15.9% over that period, while non-traditional exports remained at a standstill. The large rise in traditional exports was due primarily to exports of coal, coffee, gold and ferronickel. Non-traditional exports received a boost from the renewal and extension of United States tariff preferences, which helped to offset the slump in sales to Venezuela (-51.3%). The United States continued to be the main destination for Colombian exports, accounting for 44% of the total, followed by the European Union countries (14.5%), while the Andean Community's share dropped (13.8%) because of the steep slide in exports to Venezuela and a dip (6.1%) in exports to Ecuador. Total imports expanded by 9.9% in the first nine months of the year and consisted mainly of capital and intermediate goods and fuels.

The current account deficit was 2.2% of GDP, as against 2% in 2002. An increase in transfers, especially family remittances, formed the main counterweight to a deterioration in the merchandise trade balance and an increase in external debt payments.

The capital and financial account of the balance of payments closed the year with an estimated surplus of some US$ 1.388 billion, including errors and omissions, which contrasts with the current account deficit of US$ 1.677 billion. There was a sharp downturn in foreign investment, of about US$ 2.5 billion, including both portfolio and direct investment. This drop was largely offset by a decline in capital outflows from the government and the private sector alike (just over US$ 2.6 billion). In November net international reserves stood at US$ 10.668 billion.

3 The figure for 2003 includes a contraction of 0.3 GDP percentage points to reflect the eradication of illegal crops.

Ecuador

The economic slowdown that began at the end of 2002 has continued in 2003, and ECLAC projections indicate that Ecuador's economy will grow by 2%. Growth is expected to accelerate in 2004 on the basis of increased hydrocarbons production. Since inflation slowed in 2003, the real dollar exchange rate registered only a slight appreciation, while the real effective exchange rate remained stable. Inflation is also expected to continue its downward trend during 2004.

The balance-of-payments current account deficit shrank considerably, mainly due to an upswing in exports (especially oil) and near-zero growth in imports. Emigrant remittances and foreign direct investment also climbed. This, combined with the decline in purchases of foreign assets and the reversal of the trend in private external debt, resulted in increased reserves.

Employment remained the weak spot of Ecuador's economy. In fact, in 2003, a sharp increase was seen in the unemployment rate, chiefly as a reflection of the higher number of redundancies.

During the first half of 2003, the overall fiscal surplus of the non-financial public sector was US$ 412.8 million. This was mainly attributable to the high level of oil revenues, which increased by 50% during the first quarter thanks to higher crude oil prices. Non-oil revenue also improved during 2003, but its growth slackened in the second quarter. VAT collection in particular climbed by 4% during the first quarter of 2003 but remained constant during the second, partly due to the economic slowdown. Social security contributions were up by 30% and income tax receipts expanded by 26%. Revenues from the VAT were higher than those from social security and income tax combined.

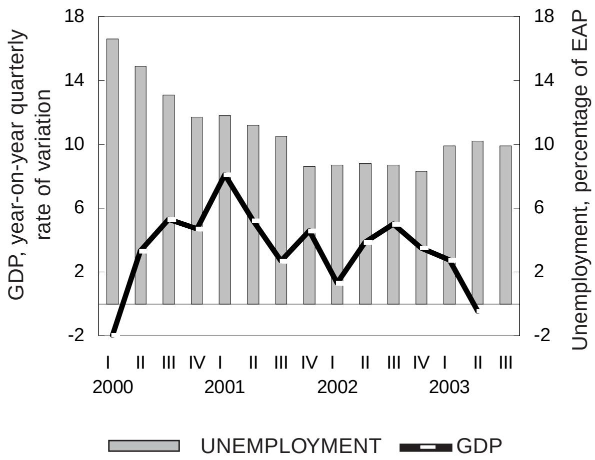
At the end of the year and in accordance with the requirements of the standby arrangement signed with the International Monetary Fund (IMF) in the first quarter, the government approved a law aimed at limiting spending on civil service wages and compensation. The application of the law is currently restricted to a small number of civil servants, but the government has announced its intention to extend its scope. The government has not yet been able to implement the necessary measures to comply with other IMF requirements, such as the placement of the State's two telephone companies under private-sector management.

Since the adoption of the United States dollar as Ecuador's official currency in January 2000, the country has had no monetary policy as such.

In a dollarized economy, the spread that investors demand above the yield of United States treasury bonds has a crucial influence on domestic interest rates. During 2003, the base rate and the lending rate dropped in parallel to the reduction of country risk.[4] Both interest rates decreased during the first quarter after the government signed an agreement with IMF and then fell again in the third quarter after the authorities launched some of the reforms they had pledged to implement (adoption of a law on civil service employment) and

4 As of 10 December 2003, Ecuador's country risk was equivalent to 845 basis points. This is considerably lower than the 1,794 points of 31 December 2002.

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

expressed a willingness to open up some of the main oilfields of the State oil company (PETROECUADOR) to private investment. At the end of October, the reference lending rate stood at 11.5% and the reference borrowing rate was 5.4%.

As for credit, the level of arrears in the financial system remained practically unchanged between December 2002 and October 2003. The private financial sector's loan portfolio, however, increased by 8.7% in nominal terms. In open private banks, foreign security holdings other than shares (such as bonds) rose by 137.1% between February and October 2003. These holdings increased much more than the sector's assets overall (11.7%) and came to represent 9.4% of the total.[5] It would appear that foreign assets were being substituted for public domestic assets, given that the holdings of central government securities dropped by 42%, i.e. from 7% to 3.6% of the sector's total assets. Loans to non-financial private institutions grew at a lower rate than assets, whereas other loans to residents (including household loans) increased by a mere 6.4%. Private banks seem to be maintaining their strong preference for liquidity. In fact, 10.9% of the sector's total assets were transferable deposits being held abroad.

During the first half of 2003, GDP was up by only 1.1% as compared to the first half of 2002 owing to the fact that during the second quarter output fell by 0.5% in the wake of reduced hydrocarbons production. ECLAC projections point to a growth rate of around 2% for the Ecuadorian economy in 2003, thanks to the increase in oil production that is expected during the final quarter of 2003 following the opening of the heavy crude oil pipeline.

In October 2003, private oil production was more than 83,000 barrels per day higher than in July. Production by PETROECUADOR, however, continued the trend of recent years and dropped slightly. In 2004, economic growth will depend mainly on the degree of investment in hydrocarbon extraction. Investment levels are expected to be significant, given the interest shown by companies that have transportation rights in the new pipeline to take full advantage of that transport capacity. In addition, the government is interested in opening the main PETROECUADOR oilfields to private investment with a view to increasing production and tax revenues. As for sales of bananas, the country's other main export product, the low prices registered in the second half of 2003 could affect investment in that sector and therefore reduce production during 2004.

Following January's steep price hike, which was mainly due to adjustments in utility rates, inflation declined to 6.5% in November 2003 compared with the same month in 2002. It is estimated that the rate of inflation will continue to fall during 2004, although it may remain higher than the United States rate, particularly if domestic gas subsidies are eliminated and utility prices are adjusted further.

In addition to domestic inflation's stabilization at lower levels, the real appreciation of the exchange rate that began in January 2000 following dollarization slowed its pace in 2003. Between December 2002 and October 2003, real appreciation in relation to the United States dollar was 3.6%. In contrast, the first 10 months of 2003 saw a limited real appreciation in relation to the currencies of Ecuador's main Latin American trading partners and a 10.4% real depreciation in relation to the euro. In 2003 Ecuador also witnessed a stabilization of the real effective exchange rate, which depreciated by 0.5% in the first 10 months of the year. After having appreciated continuously since dollarization, as of October 2003 the effective exchange rate was 15.3% lower (appreciation) than the average for the period from January 1992 to October 2003.[6]

During 2003, the employment situation deteriorated, with the unemployment rate rising from 9.2% in 2002 to 11.7% in 2003. This increase reflected a sharp upswing

5 In February 2003, the methodology used to calculate indicators was changed.

6 In October 2003, the effective exchange rate was 11.3% lower than the average for January 1992-December 1998, i.e. the period prior to the crisis that resulted in the dollarization of the economy in January 2000.

ECUADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	5.5	3.8	2.0
Consumer prices	22.4	9.4	6.5[b]
Real effective exchange rate[c]	-18.2	-8.5	0.5[d]
Terms of trade	-7.7	2.6	3.3
Annual average percentages			
Urban unemployment rate[e]	10.4	8.6	9.8[f]
Central government fiscal balance/GDP	-0.7	-0.8	-0.9
Real deposit rate	-11.3	-3.4	-1.7[g]
Real lending rate	-2.9	6.1	7.2[g]
Millions of dollars			
Exports of goods and services	5 693	6 173	7 012
Imports of goods and services	6 613	7 742	7 808
Current account	-550	-1 178	-508
Capital and financial account	320	1 050	820
Overall balance	-230	-127	312

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between November 2002 and November 2003.
[c] A negative rate indicates an appreciation in real terms.
[d] Variation between December 2002 and October 2003.
[e] Includes hidden unemployment.
[f] Estimate based on average for January-October.
[g] Annualized November 2002-October 2003 average.

in joblessness, particularly as a result of layoffs.[7] Between 2002 and 2003, the rate of open unemployment went from 5.5% to 8.5%, whereas hidden unemployment dropped from 3.8% to 3.2%. The employment rate also fell by 2.5 percentage points.

Unlike the situation in 2002, in 2003 the largest increases in unemployment were among men, as the male unemployment rate jumped from 6% to 9.7%, whereas female unemployment only rose from 14% to 14.7%.

In the first nine months of 2003, the balance-of-payments current account deficit shrank by 63% to US$ 378 million, mainly thanks to the satisfactory result on the merchandise trade balance. The deficit was covered with a US$ 400 million surplus in the financial account and US$ 272 million in the errors and omissions account.

The improvement in the trade balance for goods was attributable to a 17.5% expansion in exports, which was in turn chiefly accounted for by hydrocarbons (up by 55.7%) and bananas (16.1%). The volume of crude oil exports increased by 4.8% and, since prices rose by an average of 21.1%, the value of oil exports climbed by 25.4%. Imports dipped slightly (–0.4%) owing to the completion of the heavy crude oil pipeline and probably also to a slowdown in aggregate domestic demand. Imports of consumer goods thus rose by a mere 1.3% while imports of raw materials contracted by 6.2%, primarily because of a decline in imports of construction materials. Imports of capital goods were down by 12.6% owing to a sharp decrease in imports of transport equipment and of capital goods for the industrial sector.

Remittances from migrants showed a 12.2% year-on-year increase in the first nine months of 2003, rising to a total of US$ 1.149 billion. During this period, this category of remittances remained slightly higher than the level of profit remittances being sent abroad (US$ 1.124 billion).

The financial account performed very differently than it had in 2002. During the first nine months of 2003, foreign direct investment amounted to approximately US$ 1.332 billion, which was 46% more than in the corresponding period in 2002. A large part of this investment was in the petroleum sector and was linked either to the opening of the pipeline at the end of 2003 or to initiatives for increasing private production of crude oil. Meanwhile, the purchase of assets abroad dropped by 62.3%. Lastly, external liabilities trended downward by US$ 473 million after having previously risen by US$ 907 million. This was mainly the result of changes in the level of private external debt, which, rather than rising as it had in 2002, decreased during the first three quarters of 2003.

All of the above combined to produce an increase of US$ 310 million in freely disposable reserves.

7 The data in this paragraph come from the annual survey conducted by the National Institute of Statistics and Censuses. The unemployment rates mentioned in this section therefore do not coincide with the rates shown in the table and figure accompanying this note, which come from the monthly surveys conducted starting in that year by the Latin American Faculty of Social Sciences (FLACSO).

Paraguay

Paraguay’s GDP grew by 2.5% in 2003, thus recovering fully from its slide in 2002. This result was due exclusively to the significant expansion (around 12%) of value added in the agricultural sector, facilitated by favourable weather conditions, since non-agricultural activities as a whole registered slightly negative growth. Thus, despite the recovery of GDP in 2003, the Paraguayan economy showed very low growth for the sixth consecutive year. In this context, the rate of open unemployment in urban areas soared from 6.6% in 1998 to a record high of 14.7% in 2002.

For the second year in a row the Paraguayan economy generated a surplus on the balance-of-payments current account –albeit a smaller one than in 2002– thanks to the sound performance of agricultural exports, especially soybeans, owing to a competitive real exchange rate. The central government deficit declined from 3.1% in 2002 to 0.8% in 2003, following a significant rise in tax income attributable to administrative measures for reducing tax evasion and cutbacks in expenditure. In a stable subregional context, the guaraní appreciated moderately in the first few months of the year. Thanks to its subsequent stability, 12-month inflation diminished from a peak of 21% in April to 9.9% in November.

Until the middle of the year the outgoing government had no choice but to cope with the serious fiscal crisis and the steady deterioration of the fiscal accounts, which had started in 1999. One of the factors that contributed to this situation was the fact that since mid-2002, when the country failed to conclude an agreement with IMF, the shortage of external resources had become more acute, making the fiscal gap increasingly difficult to bridge, so that it became necessary to defer the payment of commitments at home and abroad.

In April the new government-elect, which was to take office in August, expressed its intention of moving forward with the formalization of the economy and the effort to combat corruption and tax evasion. In addition, the authorities established the priority objectives of reducing the fiscal deficit and regularizing outstanding external and domestic debt obligations.

In an unprecedented step, the President of Paraguay and the parties represented in the legislature signed an agreement in October to give priority consideration to six pieces of proposed economic legislation aimed at restructuring the public debt, instituting income taxes, reforming the social security system applicable to civil servants and public bank employees, adopting a new customs code and restructuring State-owned corporations and agencies.

In mid-December IMF approved a US$ 73-million standby arrangement for the next 15 months; the economic authorities indicated that they intended to use these funds to swell international reserves and to draw on them only in the event of an economic crisis. The agreement will give the government access to loans from the World Bank and the Inter-American Development Bank, which will be employed to regularize external debt servicing. Apart from the above-mentioned reforms, the agreement contemplates eliminating the current fiscal deficit of close to 1% of GDP in 2004 and accumulating a surplus, as well as raising GDP growth to around 2.5% and reducing inflation to 6.5%.

Towards the end of the year a proposed administrative restructuring and fiscal adjustment law providing, among other things, for a series of legal changes was making its way through the legislative pipeline. The measures proposed include broadening the income tax base by generalizing the tax and eliminating exemptions for medium and large enterprises, for which the rate is to be reduced from 30% to 10%; rates of 3% and 10% are proposed for small enterprises and personal income tax, respectively. The proposal would also expand the value added tax base to include persons who provide independent services, and would tax agricultural products in their natural state and other products and services at 5%. In addition, the measure calls for the adoption of an excise tax of 20% on cigarettes and beverages and 50% on petroleum-based fuels and for the expansion of the regulatory powers of the Office of the Under-Secretary for Inland Revenue. The government also submitted a social security reform proposal designed to reduce the growing deficit of the Fiscal Fund, the State pension system into which civil servants pay contributions, which currently accounts for a sizeable portion of the government deficit.

The effects of these measures will start to be visible in mid-2004, once the new laws have been enacted and the relevant regulations have been drawn up. However, already in 2003 (especially in the second half of the year), the central government deficit narrowed thanks to tighter evasion control policies and, albeit to a lesser extent, to spending cuts. Up to October tax revenues increased nominally by 23% and tax receipts from foreign trade and value added tax expanded. This means that the tax ratio probably went up from 9.5% of GDP in 2002 to 10% of GDP in 2003, although this is still very low. On the other hand, non-tax revenue, which includes income from the Itaipú and Yacyretá binational enterprises, increased by scarcely 8.5%. In addition, expenditure was cut back drastically, by 5%; most of this adjustment was in the area of current transfers (0.1%) and capital expenditure (3.5%). At the end of the year the central government deficit amounted to 0.8% of GDP, compared to 3.1% in 2002.

Since the beginning of the year the remarkable expansion in income from soybean exports, boosted by the sharp devaluation that occurred in 2002, made it possible to build up international reserves systematically in the following months. Reserves increased from US$ 641 million in December 2002 to US$ 853 million in October 2003. The larger supply of foreign exchange brought the price of the dollar down from a record high of 7,100 guaraníes in January to 6,200 in June, and this value remained almost unchanged until November. This development was reflected by an increase in the monetary aggregates, with M1 up by 24% in October 2003. This expansion did not lead to faster inflation, since the confidence inspired by the new authorities triggered an increase in the demand for local currency. Consequently, inflation declined from a maximum of 21% in April to a 12-month variation of 9.9% in November. Up to mid-year the contraction in non-agricultural economic activities also contributed to this decline.

PARAGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.4	-2.5	2.5
Consumer prices	8.4	14.6	9.9[b]
Real wages	1.4	-6.4	-2.3
Money (M1)	16.7	4.7	22.0
Real effective exchange rate[c]	16.5	8.1	-3.5[d]
Terms of trade	-0.1	-0.1	-1.0
Annual average percentages			
Urban unemployment rate	10.8	14.7	…
Central government fiscal balance/GDP	-1.1	-3.1	-0.8
Real deposit rate	1.8	-1.6	5.0[e]
Real lending rate	18.7	17.6	25.1[e]
Millions of dollars			
Exports of goods and services	2 431	2 425	2 663
Imports of goods and services	2 888	2 507	2 744
Current account	-275	92	59
Capital and financial account	225	-216	84
Overall balance	-50	-124	144

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Average from October 2002 to September 2003, annualized.

In this context, the yields on monetary regulation instruments also started to diminish steadily, to reach 11.5% in October. Nevertheless, owing to negative variations in the CPI between May and August, interest rates were very high in real terms until the third quarter, although they tended to decrease in the fourth. This situation, together with the past-due loans in the commercial banking system, which amounted to US$ 138 million and whose restructuring is the subject of legislation currently on the table, significantly reduced bank credit to the private sector, which decreased by 20% between December 2002 and September 2003, in both local and foreign currency. One of the chronic problems facing the Paraguayan economy is the existence of a wide spread between investment and lending rates, which is partly due to the concentration of banking activity.

GDP recorded a 2.5% rise, attributable almost exclusively to the notable expansion in the agricultural sector (12%), since the other sectors as a whole showed a slightly negative variation. An estimate of the performance of industry, commerce and other services suggests that the production of these goods and services suffered a sharp contraction (9%) at the beginning of the year, but started to show slightly positive values mid-year. The agricultural sector recorded an annual expansion of 5.6%, led by the strong growth in crop-farming, where the steepest rises were observed in the production of cotton (38%) and soybeans (28%), in the latter case because of higher yields, which resulted in an unprecedented output of 4,200,000 tons. By contrast, the livestock sector suffered a 7% decline due to outbreaks of foot-and-mouth disease. In the goods-producing sectors, construction showed a 2% recovery, following an 11% decline in 2002, while the manufacturing industry slipped by 1%. The service sector grew by 1% overall, with a notable climb in electricity consumption (6%).

Thanks to the Paraguayan economy's more competitive position, attributable to a 7% increase in the average annual real effective exchange rate, together with an upturn in export prices, exports posted a 12% expansion, while imports rose by 9% after having fallen off sharply in 2001 and 2002. Therefore, the merchandise trade deficit narrowed again, this time to about US$ 250 million, and the service sector yielded a surplus, as in previous years. Although net factor income was positive, current transfers showed zero growth, as a result of which the current account surplus shrank to some US$ 60 million, after having stood at close to US$ 100 million in 2002. However, in contrast to what had happened that year, there were capital inflows of some US$ 80 million in 2003. This raised the overall balance to US$ 145 million, which corresponded almost entirely to an increase in international reserves. In October Paraguay and the United States signed their first bilateral agreement, which will boost non-traditional exports. The agreement provides, among other things, for the establishment of a commission to promote investments by United States firms in Paraguay.

Peru

The Peruvian economy grew by 4%, while inflation was kept within the range established by the monetary authority, reaching 2% at the end of the year. In view of these circumstances, monetary policy was moderately expansionary and interest rates declined. The fiscal deficit was reduced to 2% of GDP, in accordance with the authorities' aim of ensuring the sustainability of public debt.

The trade surplus was the highest since 1990, mainly owing to mining exports, while the balance-of-payments current account deficit stayed at around 2% of GDP. In view of the favourable macroeconomic situation and the more stable regional context, the spread for external debt securities diminished in the course of the year.

Economic growth was constrained, however, by the fact that levels of private investment remained relatively low and public investment contracted. Moreover, the impact of growth on the labour market was still limited, and both wages and unemployment showed only minor changes.

To ensure the sustainability of public debt, the authorities applied a medium-term strategy that involved whittling down the fiscal deficit and building up the primary surplus over the next few years. For these purposes, they persisted with measures to expand the tax base in 2003 and temporarily raised the general sales tax to 19% as of 1 August. Between January and October central government revenue increased by more than 8% in real terms compared to the same period of the previous year, in particular because of higher receipts from income tax (31%) and the general sales tax (9.5%).

Meanwhile, both wage outlays and central government transfers for pensions grew by more than 6% in real terms in response to strong pressure to increase current expenditure. Interest payments were also almost 6% higher. In order to contain the potential risk to public finances inherent in the decentralization process, the Fiscal Responsibility and Transparency Act was adopted. This legislation includes rules for regional government spending and borrowing. In order to counteract the rise in current spending, the authorities again cut back on public investment, so that total central government expenditure increased by only 4% in real terms.

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

The non-financial public-sector deficit is estimated at 2% of GDP, which represents a slight reduction, in line with the authorities' plans at the beginning of the year. The deficit was financed in part through new sovereign bond issues on the external markets, as well as a new system of bond issues for the creation of a local capital market. In contrast, income from privatizations and concessions was less than the amount budgeted.

The stability of the main prices (especially consumer prices) was beneficial for monetary policy, which facilitated the recovery effort. The authorities again set a target range of 1.5% to 3.5% for inflation, and explicitly established that the interbank rate should follow the trend defined by the lending and deposit rates of the central bank's monetary operations with the commercial banking system. Over the year the interbank rate declined from 3.8% in January to 2.5% at the beginning of December, thus contributing to the decline in the rates offered by banks to their customers.

This moderately expansionary policy did not, however, succeed in stimulating credit demand, which dropped by 2.2% between October 2002 and the same month of 2003. Mortgage and consumer loans and loans to microenterprises were relatively dynamic, while commercial credit contracted.[8]

The nuevo sol appreciated by 1% against the dollar in real terms in the first 10 months of the year, compared to the average for 2002. Owing to the appreciation of the euro, the Argentine peso and the Brazilian real, however, the real effective exchange rate rose by 3%. The stability of the dollar exchange rate helped to sustain the gradual decline in the dollarization of credit that had begun in 2002, from the high levels recorded previously. Between December 2002 and October 2003 the share of local-currency loans in total credit increased from 24% to 26%.

Exports and private investment were the main engines of economic progress, with growth rates higher than 5% over the first three quarters, while private consumption expanded less than in the previous year as a result of a weak labour market. Public consumption recovered, while public investment fell again, albeit less sharply than in 2002.

Mining was one of the main areas of expansion, although non-primary manufacturing also grew by more than 4% over the first three quarters. Agriculture and construction expanded more slowly than they had the previous year, by between 3% and 4%. Meanwhile, fishing contracted, with negative effects on primary manufacturing.

Consumer prices trended upward at the beginning of the year owing to the higher cost of oil on international markets, but year-on-year inflation later subsided, ending the year close to 2%, which was within the target range set by the monetary authorities.

Over the first nine months of the year the number of jobs in formal urban enterprises grew by 1.7% in relation to the same period of the previous year, with particularly strong expansion of employment in commerce. Employment shrank, however, in small businesses and microenterprises, which contributed to a drop in the employment rate. As the participation rate was also lower, the unemployment rate stayed virtually the same. Over the 12-month period from November 2002 to October 2003 per capita income rose by 1.7% in real terms compared to the level of the preceding 12 months. In September the minimum wage was increased by 12%, the first rise since 2000.

PERU: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	0.2	4.9	4.0
Consumer prices	-0.1	1.5	1.9[b]
Real wages[c]	-0.9	4.6	…
Money (M1)	0.8	13.6	8.7
Real effective exchange rate[d]	-2.6	1.8	4.9[e]
Terms of trade	-4.1	3.0	2.2
Annual average percentages			
Urban unemployment rate	9.3	9.4	9.3[f]
Central government fiscal balance/GDP	-2.8	-2.2	-1.9
Real deposit rate	7.7	2.1	2.1[g]
Real lending rate	25.2	19.1	19.5[g]
Millions of dollars			
Exports of goods and services	8 517	9 192	10 238
Imports of goods and services	9 618	9 932	10 791
Current account	-1 184	-1 206	-1 245
Capital and financial account	1 601	1 987	1 546
Overall balance	417	781	300

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private-sector workers in the Lima metropolitan area.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation from December 2002 to October 2003.
[f] Estimate based on the average for January - October.
[g] Average from November 2002 to October 2003, annualized.

8 As interest rates are lower for commercial loans than for the other types of loans referred to, the overall result was that the average rate for all bank lending operations was higher in October than in January.

With the increase in exports, the surplus on the goods balance increased by 16% over the first 10 months of the year in relation to the same period of 2002; this was due to growth mainly in mining and, to a lesser extent, in agriculture and manufacturing. Gold sales, which increased in terms of both volume and price, surged by 43% and accounted for 23% of the value of total exports. Imports increased by 11.5%, with the biggest increments in inputs and intermediate goods, especially fuel, and in capital goods. The improvement in the goods balance was counteracted by an increase in payments for factor services, so that the current account deficit remained unchanged at about 2% of GDP.

To enhance its integration into external trade flows, Peru became an associate member of MERCOSUR, and also aspires to sign free trade agreements with the European Union and, in particular, with the United States.

With regard to the financial account, there were sovereign bond issues for US$ 1.25 billion, while private sector flows diminished, partly because of the lower level of foreign direct investment. The overall balance made it possible to increase net international reserves, which rose to about US$ 10.4 billion at the beginning of December. External debt was down slightly, from 49.3% of GDP in December 2002 to 47.9% in September 2003, as a result of the reduction in private sector debt. Thanks to the better regional situation and the stability of Peru’s macroeconomic variables, the spread on external debt went down from around 600 basis points in late 2002 to a little over 300 points in November 2003.

Uruguay

In 2003 Uruguay managed to halt the economic recession which had persisted since the middle of 1998. Although overall GDP growth was as little as one percentage point for the year, after having plummeted by more than 10% in 2002, the level of activity began to pick up in the first quarter and maintained an upward trend until the end of the year.

The financial system stabilized at the low levels recorded after the acute crisis the previous year and, in the middle of the first semester, the government succeeded in implementing its proposal for the voluntary swap of foreign currency-denominated public securities. In June a new letter of intent was signed with the International Monetary Fund (IMF), which opened up access to financing from international institutions. These factors helped to dispel the pervading uncertainty that had weighed on the Uruguayan economy since the beginning of 2002. The main challenge in the near future continues to be that of achieving sustained growth that will enable the authorities to cope with the enormous burden of servicing the debt denominated in foreign currency.

The upturn in production was mainly export-driven, since domestic consumption remained slack. Annual inflation declined, approaching the 10% mark, and the unemployment rate, although very high, also tended to decrease. The higher level of activity boosted tax revenue, which, together with spending restrictions, helped to reduce the fiscal deficit to less than 4% of GDP, a level not seen for several years. The rapid expansion of exports and the limited level of imports for most of the year yielded a positive external current account balance.

The main economic policy challenge at the beginning of 2003 was the high level of public sector borrowing, since, in the 2003-2004 biennium, the authorities had to deal with the redemption of a substantial volume of government securities held by private domestic and external creditors, given that at the end of 2002 public debt in foreign currency was equivalent to almost 100% of GDP and 45% of it was owed to international institutions. In these circumstances, at the beginning of 2003 the authorities put forward a proposal for the voluntary swap of foreign currency-denominated debt amounting to US$ 5.2 billion. The proposal did not include the remission of capital or interest, but extended redemption schedules by at least five years.

The proposal was well received, since it was accepted by more than 90% of private creditors. Following the restructuring of its public securities debt, the government signed a new agreement with IMF, which offered the prospect of fresh financing from multilateral institutions. The agreement specified a consolidated public sector primary surplus on the order of 3% of GDP in 2003, rising to 4% in 2005. Bearing in mind the heavy burden of interest, the surplus will bring the consolidated deficit to around 3.5% of GDP, a level that is considered consistent with the public sector's current borrowing capacity and inflation targets. The agreement estimates that GDP will contract again (-1%) in 2003, but that growth will return to levels of about 3% a year starting in 2004.

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

The change in the debt profile and the new agreement with IMF bolstered confidence significantly at the beginning of the second half of the year, but the reduction of the fiscal deficit continued to be an elusive goal. Tax revenue increased in line with the acceleration in the rate of activity and improved tax collection, but total central government revenues rose only slightly. Total expenditure did not show any variation from the previous year, but did change substantially in structure: while primary expenditure fell significantly, interest payments went up considerably in nominal terms to stand at almost 6% of GDP, through the combined effect of the rise in the exchange rate and the expansion of foreign-currency debt. Therefore, in 2003 interest payments accounted for more than one fifth of total expenditure, while wages represented 17% and investments, only 5%. Transfers to the social security system to balance its accounts were the item with the strongest impact: 37% of total expenditure.

The higher revenues and stable expenditure made it possible to raise the primary surplus to a level close to the target of 3% of GDP agreed upon with IMF; this placed the consolidated deficit within the planned range. To finance the deficit, the authorities turned to currency issues, loans from international institutions and short-term debt issues denominated in local and foreign currency on the domestic market. In October Uruguay rejoined the international credit market with the issue of a three-year bond payable in dollars but denominated in inflation-indexed units, at an annual interest rate of 10.5%.

Under the current free exchange-rate system, monetary policy assumed a more important position. Two clearly differentiated periods could be discerned. In the first half of the year excess liquidity was absorbed through monetary regulation bills. Once it became evident that the demand for money was growing and that expectations were clearly improving, expansionary monetary policy measures were adopted in the second half of the year. Reserve requirements were reduced and interest rates were gradually lowered. Credit, however, remained tight, given savers' preference for demand –or very short-term– deposits and the weakness of much of the banking system.

Exports of goods and services registered a real increase of almost 10%, strongly boosted by the higher level of confidence, the increase in competitiveness derived from the 45% rise in the real exchange rate between June 2002 and October 2003, better prices for the country's principal exports and the resumption of beef sales once Uruguay had been declared a foot-and-mouth-disease (FMD) free country where vaccination is practised. Domestic absorption, on the other hand, continued to retreat. Investment shrank again, this time by more than 10%, while consumption remained at low levels in a context of reduced public spending and scarce domestic credit.

In annual terms, agricultural production was the only sector to show vigorous expansion. In a context of listless private consumption, manufacturing was sluggish and construction continued to show signs of recession, with a level of activity equivalent to only 60% of the maximum recorded in 1999; services also declined. This bleak picture looks very different, however, when viewed in terms of the behaviour of GDP during the year. The sharp contraction in activity in the second half of 2002 had resulted in a negative carry-over of seven percentage points for the measurement of GDP in 2003. Nevertheless growth in the fourth quarter of the year was projected to be substantial enough (more than 10%) to offset the considerable negative overhang from the previous year. The upturn, which was based on the use of idle installed capacity, was led by agricultural and agro-industrial production, nascent import substitution and tourism-related activities.

Joblessness decreased as the level of activity picked up, but at the end of 2003 it was still high, affecting 16% of the EAP. This decline in unemployment was due to an increase in labour demand and a simultaneous decrease in the labour supply attributable to the persistent outflow of migrants, which had been observed since the beginning of 2002, and the impact of the "discouragement effect" on job-seeking. Increases in public- and private-sector wages were much lower than inflation, which meant a further setback in real wages, this time of more than 10%.

The contraction in consumption, the unexpected increase in the demand for money and the stability of the exchange rate, which rose by little more than 4% in the first 10 months of the year, helped to reduce the rate of consumer price increases to 10.8% in the 12-month period ending in November, which was less than half the preceding year's rate. In a context of shifting relative prices and rising international prices for Uruguay's main exports, wholesale prices rose faster, by 20% for the year.

Merchandise exports forged ahead starting in the middle of the year and are estimated to have expanded by around 13% in 2003. Tourism earnings also increased, boosted by the higher real exchange rate and growing demand from neighbouring countries. After showing negative growth in the first six months, imports showed signs of recovery which, together with the increase in the oil bill due to the rise in international prices, resulted in an 8% expansion for the year as a whole. Consequently, both the balance-of-payments current account and the capital account recorded a surplus and international reserves expanded, making up for part of the considerable loss registered the previous year.

URUGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-3.5	-10.7	1.0
Consumer prices	3.6	25.9	10.8[b]
Real wages	-0.3	-10.7	-12.3[c]
Money (M1)	-0.8	-2.6	19.6
Real effective exchange rate[d]	6.3	32.0	8.7[e]
Terms of trade	1.0	-0.5	1.3
Annual average percentages			
Urban unemployment rate	15.3	17.0	16.8[c]
Overall public sector fiscal balance/GDP	-4.3	-4.6	-3.6
Millions of dollars			
Exports of goods and services	3 276	2 698	2 937
Imports of goods and services	3 723	2 526	2 629
Current account	-545	251	32
Capital and financial account	847	-4 164	514
Overall balance	302	-3 914	546

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Estimate based on the average from January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Variation between December 2002 and October 2003.

Venezuela

In 2003 Venezuela continued ensnared in a complex economic and political situation. Overall, economic activity dropped by about 9.5% during the year, with steep slumps in both household consumption and investment, of about 45% in the latter case.

The strike called by opposition political parties and business groups, which lasted from December 2002 until early February 2003, led to sharp drops in the production and export of petroleum and a strong contraction in the other sectors of the economy. As a result, economic activity dropped heavily in the first quarter (-27.6%), while petroleum activity fell nearly 50% below its level of the same period of 2002. In the second quarter, by contrast, a partial recovery in petroleum activity enabled the economy to grow in relative terms, but the other sectors did not bounce back at the same rate.

All this has translated into high levels of unemployment –around 18%– and informality, as well as a steep decline in real wages. The current account surplus was larger than in 2002, mainly as a result of a plunge in imports. The fiscal deficit stayed close to its prior-year level of about 3% of GDP.

The outlook for 2004 points to a significant upturn in growth, mainly because the first quarter of 2003 represents a very low standard of comparison. The prospects for a settlement of the complex political situation are not particularly clear, and it is possible that a referendum may be held in early 2004.

Against this backdrop, the main feature of fiscal policy was an expansion in current spending, mostly in the form of transfers to public-sector agencies. This was sustained by increased domestic borrowing and a rise in the foreign exchange profits generated by international reserves.

In early 2003 the authorities adjusted the national budget by extending the bank debit tax and changing the VAT rate, which at the beginning of the year was set at 8% for certain food items, air transport and medical and dental services. New VAT withholding mechanisms were also created. Given the contraction in economic activity, however, revenues from those sources have dipped.

Petroleum revenues, by contrast, rose throughout 2003. This reflected an upswing in production after the stoppage that took place early in the year, although output is still trailing its levels of the third quarter of 2002, and a rise in the price of the Venezuelan crude basket. The performance of oil revenues is significant because they represent a little under half of all fiscal income.

The Macroeconomic Stabilization Investment Fund (FIEM) was used less and less as a source of financing in 2003 as its resources declined and were not replenished with fresh contributions. The Fund's resources slid from US$ 2.8 billion in early 2003 to US$ 700 million at the end of the year, following withdrawals allowed under legislative amendments adopted at the beginning of the year.

In order to reduce interest and principal payments, the authorities refinanced part of Venezuela's domestic debt by swapping securities maturing in 2003 for

VENEZUELA: GDP AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.

VENEZUELA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.5	-9.0	-9.5
Consumer prices	12.3	31.2	26.1[b]
Real wages [c]	2.4	-10.0	-14.0[d]
Money (M1)	25.6	7.9	46.4
Real effective exchange rate[e]	-3.5	35.7	4.2[f]
Terms of trade	-16.2	6.5	9.5
Annual average percentages			
Urban unemployment rate	13.3	15.8	18.2[g]
Central government balance/GDP	-4.2	-3.3	-3.0
Real deposit rate	2.2	-1.1	-4.4[h]
Real lending rate	1.9	-1.4	-7.7[h]
Millions of dollars			
Exports of goods and services	27 648	27 716	26 533
Imports of goods and services	23 346	17 474	13 696
Current account	2 062	7 423	9 844
Capital and financial account	-3 901	-11 850	-3 844
Overall balance	-1 839	-4 427	6 000

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Private sector.
[d] Estimate based on average for January to September.
[e] A negative rate indicates an appreciation in real terms.
[f] Variation from December 2002 to October 2003.
[g] Estimate based on average for January-October.
[h] Average for November 2002 to October 2003, annualized.

instruments payable in 2004 and 2005. In the last quarter of 2003 the government announced a special bonus for public employees, which brought the fiscal deficit up to a level comparable to that of 2002, at close to 3% of GDP.

Real interest rates dropped significantly in 2003, reflecting the authorities' expansionary monetary policy, but this drop did not translate into an increase in credit extended by financial institutions, which has tended to stagnate in nominal terms. This is indicative of lower demand for credit on the part of economic agents, although the financial system displayed a steady increase in monetary liquidity (M2) throughout the year. [9]

In this regard, the measures the authorities took were ineffective as mechanisms to kick-start the economy. Given the impossibility of investing in the foreign exchange market and the slack demand for credit, banking institutions purchased a large volume of government securities. These instruments represent a little over half the asset portfolio held by commercial banks.

As a result of the large capital outflow recorded in 2002 and the stoppage in petroleum activity late that year and early the next, foreign exchange became scarce and the bolívar therefore devalued heavily. In February 2003 the government responded by implementing strict exchange controls, setting the exchange rate at 1,600 bolívares to the dollar and prohibiting the purchase of dollars within the country. The outcome of this restriction was the development of an unauthorized parallel market in which the price of the dollar was approximately 50% above the official price.

The resumption of petroleum production and exports, in combination with the foreign exchange controls, made for a considerable expansion of international reserves, which rose from US$ 14 billion at the beginning of 2003 to close to US$ 21 billion in December. The Foreign Exchange Board (CADIVI), a public agency responsible for the foreign exchange supply, maintained tight exchange controls throughout the year but gradually increased the amount of foreign exchange available to agents to meet their external obligations, especially import payments.

Economic activity continued to decline in 2003 in petroleum and non-petroleum sectors alike, accumulating a drop of 9.5%. The stoppage called at the end of 2002 lasted until February 2003, causing sharp contractions in both oil production and exports and

9 M2 refers to bills and coins in circulation plus sight, savings and time deposits.

across the other segments of economic activity. As a result, GDP plunged by 18.5% in the first half of the year.

Petroleum production trended back upward throughout 2003, but did not return to pre-stoppage levels. Non-petroleum activities, which represent around 75% of the total, were affected by price and exchange-rate controls, with the private sector hit by foreign exchange shortages.

The worst affected non-petroleum sectors were construction, commerce and manufacturing, which contracted by 56.1%, 27.2% and 23.8%, respectively, in the first three quarters of 2003 compared to the same period of 2002. This was attributable to slack domestic demand, a drop of around 8% in private consumption and a slump of almost 47% in investment in the first three quarters of 2003 in comparison to the year-earlier period.

As a complement to the controls implemented in the foreign exchange market, the government imposed price controls on basic consumer goods and services, encompassing more than half the items included in the CPI. A number of business sectors argued that the official prices were too low to allow them to continue producing and supplying the market and that production costs would exceed sale prices. The government therefore had to begin directly importing and distributing some basic products in order to prevent shortages. In these circumstances, the cumulative CPI in the period January-November 2003 displayed a rise of 26.1%. An alternative index prepared by the central bank, which measures the prices of goods and services not subject to price controls, showed a price rise of 35.4% in the same period, however.

Although wages increased in nominal terms in relation to 2002 –the general index, which includes both the public and private sectors, was 7.6% higher in the period January-September 2003 than in the same period of 2002– they declined sharply in real terms. Moreover, the downturn in productive activity impinged on unemployment and informal-sector employment. Even so, unemployment trended downward and in January-October 2003 stood at 18.2%, as against 15.8% in 2002. Informal-sector workers, it should be noted, represent over 50% of the total.

With regard to the external sector, petroleum exports made a partial recovery in the second quarter of the year after dropping steeply in the first. Although growth in the volume of petroleum exports picked up speed as the year went on, it was not enough to prevent a decline in average annual output. The average price of the Venezuelan crude basket moved up, largely offsetting the decline in the volume of crude exports, but petroleum exports nevertheless dropped slightly, as did non-traditional exports.

The foreign exchange shortage, foreign exchange controls and the sharp decline in domestic demand were reflected in a strong contraction in imports, which in July 2003 were down by 46% with respect to the same period of 2002. They revived somewhat during the rest of 2003, however, ending the year with a value decrease of 27%. This sharp decline in imports, together with a 5% drop in the value of merchandise exports, translated into an expansion of the trade surplus and the current account surplus, to about US$ 9.85 billion (12.9% of GDP) in the latter case.

MEXICO AND CENTRAL AMERICA

Costa Rica

According to official estimates, in 2003 gross domestic product increased by 5.6% in real terms (4.4% excluding the high-technology industry). This increase was more than double the growth rate predicted at the beginning of the year. The rise was mainly due to the major increase in exports, the recovery of the agricultural sector, the expansion of construction, transport, telecommunications and energy activities and the upturn in international tourism. The buoyancy of exports was based largely on sales from the free trade zones (especially microprocessors) and exports of agricultural products, whereas production sectors geared to meeting domestic demand recorded lower rates of expansion.

Under the monetary programme for 2003, economic policy focused on controlling inflation and reducing the fiscal deficit and the balance-of-payments current account deficit.

Fiscal policy continued to revolve around ways of addressing the chronic fiscal deficit and guaranteeing the financial sustainability of the public sector. The Legislative Assembly discussed a fiscal reform proposal without reaching a decision on the matter. It is estimated that the reduced overall public sector deficit (4.1% of GDP) will exceed the initial target (3.1%). Although the central government deficit (2.8%) will be lower than initially predicted (3.1%) as a result of the positive effects of the fiscal contingency plan and the containment of public spending, the rest of the non-financial public sector will post a surplus (0.2%) smaller than estimated (1.2%). This is mainly because the Costa Rican Electricity Institute will run a deficit and the Costa Rican Social Security Fund will probably run a smaller surplus, since both institutions made higher investment outlays in 2003. At the same time, the central bank's deficit will increase slightly (1.5%) owing to its greater money absorption needs in the wake of the unexpected increase in international reserves. In January 2003 the country issued US$ 450 million in bonds and placed them on the international market. Of this amount, US$ 200 million was used to pay off a previous bond issue and the remainder was used to finance most fiscal requirements.

The imbalance in public finances is one of the factors behind the relatively high interest rates that encourage inflows of flight capital and raise the cost of open-market operations, thereby reducing the effectiveness of monetary policy.

The central bank continued to implement a cautious monetary policy aimed primarily at maintaining the previous years' results in terms of macroeconomic stability. During the fist quarter the issuing authority gradually increased the legal minimum reserve requirement from 5% to 10%, which cut down on the amount of resources that banks could use for loans and made it possible to reduce the losses entailed by interest payments on monetary stabilization bonds. The central bank also decided to reduce the benchmark interest rates it offers on its bonds. Thus, the basic deposit rate (which is the market reference rate) dropped from 17.5% to 14%.

As a result of the implementation of prudent fiscal and monetary policies, credit and liquidity grew moderately, interest rates tended to decline, inflation rose in line with predictions and the local currency experienced a real depreciation against the dollar which, though slight, was greater than the depreciation of the currencies of Costa Rica's trading partners.

The buoyancy of GDP was based on a striking increase in exports, which offset the slump in the domestic market. The increase in GDP reflected the expansion of manufacturing activities (due to the performance of free-zone firms, including high-technology firms), construction, transport and telecommunications (particularly mobile telephones and Internet service), as well as the recovery of the agricultural sector and an upturn in international tourism. Particular mention should be made of the recovery of agriculture, which bounced back from its 2% downturn in 2002 mainly because of increased exports of non-traditional products, particularly pineapples, melons and flowers and foliage. Other contributing factors included increases in milk, fruit and vegetable production and in banana and coffee exports.

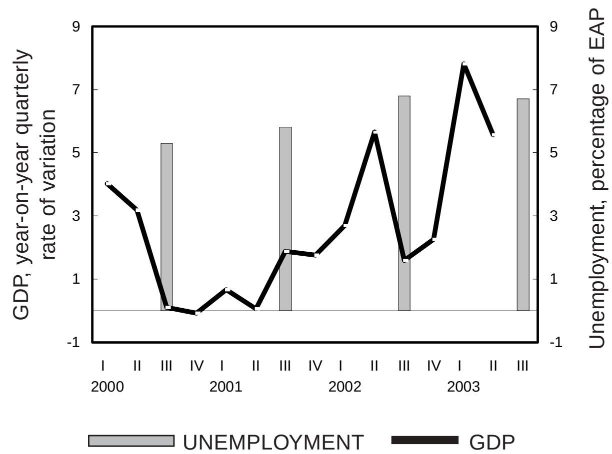
In November the consumer price index was up by 9.3% in comparison to the same month of the previous year. This was close to the 10% target set by the monetary programme. Contributing factors included monetary policy, the partial external financing of the fiscal deficit and the low price of certain imports, particularly capital goods. To a certain extent, these factors offset the inflationary pressure generated by increases in the price of hydrocarbons (particularly at the beginning of the year), utility rates, the devaluation rate and the fiscal deficit.

COSTA RICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.2	2.9	5.6
Consumer prices	11.0	9.7	9.3[b]
Real wages[c]	1.0	4.0	0.5[d]
Money (M1)	12.7	14.4	19.1
Real effective exchange rate[e]	-2.1	4.2	6.0[f]
Terms of trade	-1.4	-1.5	-3.1
Annual average percentages			
Urban unemployment rate	5.8	6.8	6.7
Central government fiscal balance/GDP	-2.9	-4.3	-2.8
Real deposit rate	0.4	1.9	3.1[g]
Real lending rate	10.3	13.4	15.2[g]
Millions of dollars			
Exports of goods and services	6 820	7 123	8 040
Imports of goods and services	6 911	7 707	8 327
Current account	-737	-946	-990
Capital and financial account	750	1 109	1 025
Overall balance	13	163	35

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] Average wages reported by workers covered by social security.
[d] Estimate based on the average from January to October.
[e] A negative rate signifies an appreciation of the currency in real terms.
[f] Variation from December 2002 to October 2003.
[g] Average from November 2002 to October 2003, annualized.

COSTA RICA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

Although economic growth was stronger, the problems affecting the labour market remained. Employment increased significantly (3.4%), but the high participation rate pushed up the nationwide rate of open unemployment from 6.4% to 6.7%, while urban unemployment stayed practically constant. Adjustments in the nominal minimum wage barely compensated for the increase in prices.

The balance-of-payments current account deficit is expected to be equivalent to 5.6% of GDP, which is one percentage point higher than the level estimated in the monetary programme and equal to the level posted in 2002. The contraction of the trade deficit was due to the significant increase in exports (15%), which exceeded the rise in imports. This improvement was offset by the widening of the deficit on the income account due to increased repatriation of profits and dividends from foreign direct investment. However, the greater inflow of external resources was used to finance the current account deficit, pay off US$ 86 million of the central bank's foreign-currency liabilities and accumulate foreign assets worth US$ 35 million.

Export performance was driven mainly by exports of non-traditional products such as microprocessors produced by the Intel plant, medical equipment and pharmaceuticals, in addition to exports of the aforementioned agricultural products. The growth of imports was concentrated in capital goods and raw materials.

El Salvador

In 2003 the Salvadoran economy was once again in a cyclical downturn. Gross domestic product increased by 2%, which meant that per capita GDP remained virtually stagnant for the fourth consecutive year. On the one hand, the economy benefited from increased external demand for maquila exports. Family remittances also continued to rise and represented 14% of GDP, thereby boosting private consumption. On the other hand, there was a fall in public investment resulting from the virtual termination of the extraordinary investment programme for repairing the damage caused by the earthquakes that occurred in 2001. Despite abundant liquidity and low interest rates, private investment showed only a slight upturn, partly because of uncertainty in the run-up to elections.

The increase in tax revenue and the decrease in capital expenditure brought down the central government deficit to 2.1% of GDP, although public borrowing rose to worrying levels. The consolidation of the dollarization process continued to encourage reductions in nominal deposit and lending rates and in year-on-year inflation, which was about 2.5% in December. The current account deficit shot up to 4.1% of GDP because of a 15% increase in the trade gap. Official estimates for 2004 predict a 2.5% rise in GDP and a fiscal deficit of 1% of GDP.

Public finances were characterized by a smaller fiscal deficit and a considerable increase in public borrowing. Excluding social security liabilities, which are recorded below the line in the public accounts, the deficit of the non-financial public sector was 2.4% of GDP, or one percentage point lower than the previous year's level. This improvement was the result of both higher income and lower expenditure. Including pension liabilities, the deficit stands at 3.5% of GDP.

The central government reduced its deficit to 2.1% of GDP, which was one percentage point below the 2002 figure. Tax revenue climbed by almost 11% as a result of increased VAT and income tax receipts and auditing programmes. Although current expenditure increased owing to a rise in consumption expenditure, this was offset by a downturn in capital outlays, mainly reconstruction spending and capital transfers.

Total public debt represented 47% of GDP as a result of the refinancing of short-term debt, which was converted to long-term liabilities. This exceeded the prudential level of 40% set by the Ministry of Finance. The external public debt, at US$ 4.6 billion, represented approximately 30.3% of GDP. Domestic public debt was US$ 2.542 billion, or 17% of GDP.

By late 2003, the consolidation of the dollarization process had brought the balance of colones in circulation to 42 million (12% of the notes and coins in the public's possession) and had accentuated recent trends towards an unprecedented reduction in inflation and the convergence of interest rates with those in the United States. Nominal deposit rates dropped to 3.4% and lending rates, to 6.6%, which resulted in a 7.7% expansion of credit to the private sector. Net international reserves increased by 14% to reach US$ 2.141 billion. The monetary aggregate M3 grew by nearly 3%. The Central Reserve Bank's net international reserves cover the issuance of currency and liquidity reserves and provide foreign-exchange backing for obligations to the public and to banks. Despite these achievements, the performance of real investment and capital flows was not encouraging. Indeed, the slow economic growth of recent years is explained in part by the slow development of investment (less than 18% of GDP) and by the fall in foreign direct investment at a time of negative growth in total factor productivity and worsening terms of trade.

The first priority of the government's trade policy continued to be the negotiations for a free trade agreement between Central America and the United States. Given the progress made, the agreement is expected to be signed at the end of the year or at the beginning of 2004. El Salvador also continued to participate in the talks on the Free Trade Area of the Americas (FTAA).

Economic activity was driven mainly by private consumption and, to a lesser extent, by exports of goods and services and gross domestic investment. In terms of supply, imports of goods and services expanded by 5.4%.

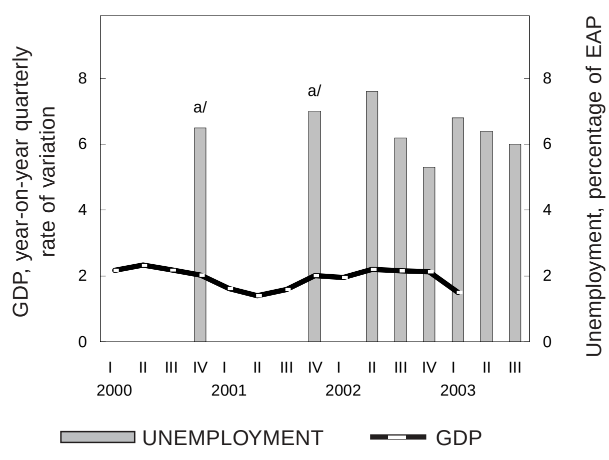
The sectors that grew and had a positive effect on GDP were manufacturing (2.8%), commerce (1.1%), finance (2.8%) and transport (3.1%). In contrast, the fall-off in the agricultural sector (-0.6%) was linked to the slow recovery of coffee and sugar prices on the

EL SALVADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.7	2.1	2.0
Consumer prices	1.4	2.8	2.6[b]
Money (M1)	17.6	-81.4	-41.3
Real effective exchange rate[c]	1.5	0.9	0.5[d]
Terms of trade	-3.1	-0.8	-1.3
Annual average percentages			
Urban unemployment rate	7.0	6.2	6.2[e]
Central government fiscal balance/GDP	-3.6	-3.1	-2.1
Real deposit rate	4.1	0.7	0.6[f]
Real lending rate	8.1	4.3	3.5[f]
Millions of dollars			
Exports of goods and services	3 587	3 799	4 057
Imports of goods and services	5 795	5 898	6 452
Current account	-190	-384	-617
Capital and financial account	12	260	883
Overall balance	-178	-124	266

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] A negative rate signifies an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Estimate based on the average from January to September.
[f] Average from November 2002 to October 2003, annualized.

EL SALVADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.
[a] Yearly average.

international market. The country's stalled economic growth in recent years is attributable in part to a systematic deterioration of the terms of trade.

Inflation as measured by the consumer price index showed a year-on-year rate of 2.6% in November 2003, and is expected to show a 12-month variation of 2.5% up to December. In the second quarter minimum wages in commerce and services, industry and maquila activities posted increases – the first since 1998 – ranging from 5% to 10%.

The balance-of-payments current account deficit rose to 4.1% of GDP, which was a significant increase over the 2002 figure of 2.7%. Inflows of family remittances continued to swell, reaching US$ 2.1 billion. That figure was slightly lower than the negative balance of goods and services, and represented more than three times the current account deficit.

The most noteworthy aspects of the performance of exports (6.3%) were the increase in sales of non-traditional products and the strengthening of maquila sales. Exports to Central America (23%) were up by 3%, whereas exports to the rest of the world climbed by 7.4%. Traditional exports slid by 10% overall, especially because of reduced sales of sugar (-21%) and coffee (-7.2%). Non-traditional exports rose by 4.4% and maquila exports, by 9%.

Imports surged by 9.6%, with most of the increase accounted for by imports of intermediate goods for manufacturing (10%) and of consumer goods (13%). The trade deficit therefore widened by more than 15% and came to represent 15% of GDP.

Foreign direct investment, which was down from the previous year, amounted to some US$ 140 million and was directed mainly at the maquila, fishing, finance and electricity sectors.

Guatemala

Guatemala's gross domestic product grew by 2.4% in 2003, so that per capita GDP contracted for the second consecutive year. The consumer price index increased by 5.8% (6.3% in 2002) and the primary fiscal deficit was equivalent to 1.6% of GDP (1% in 2002). These figures were in line with the targets agreed upon with IMF under the extension of the standby arrangement approved in June 2003, which was mainly intended to support economic stabilization.

The balance-of-payments current account deficit was US$ 1.1 billion, similar to the figure for 2002, and equivalent to 4.5% of GDP.[1] The deficit on trade in goods and services stayed close to its level of the previous year, at about US$ 2.8 billion. The increase in transfers from abroad, mostly remittances, offset the increase in the deficit on the income account. Higher levels of external borrowing were reflected in a US$ 380 million increase in international reserves.

1 In 2002 the balance-of-payments current account deficit represented about 5% of GDP.

The agreement with IMF was the key reason why economic policy did not neglect monetary and price stabilization, despite the pressures resulting from the holding of presidential elections. The low level of investment and sluggish job creation, however, are a cause of concern, and were mainly due to the downturn in construction, the virtual stagnation of manufacturing and difficulties in agricultural restructuring.

In 2004, if the United States economy remains buoyant, the country expects to achieve GDP growth of 2.6%, annual inflation of 4% to 6% and a fiscal deficit of between 2% and 3% of GDP.

Macroeconomic policy reflected the standby arrangement signed with IMF at the end of March 2002. This agreement expired on 31 March 2003 and was extended for another nine months as from 18 June in order to support a macroeconomic stabilization programme. The targets for 2003 were to reduce cumulative annual inflation to between 4% and 6%, increase international reserves by US$ 250 million, limit the combined public sector deficit to 1.7% of GDP and raise social spending to more than 5% of GDP (the 2002 target), with economic growth of 2.4%.

Resistance to tax increases on the part of some business groups hindered the management of public finances. Other adverse factors were the delay in the placement of Peace Bonds on the international market to finance commitments undertaken in the Peace Agreements, special outlays related to army demobilization, compensation payments to some 250,000 former combatants and the strengthening of the Savings Protection Fund and the National Mortgage Bank. Nevertheless, it is expected that the authorities will be able to limit the central government deficit to 1.6% of GDP and the consolidated public sector deficit to 1.7% of GDP, based on a tax ratio of 10.7% of GDP.

The fiscal deficit reflects the fact that the 13.9% increase in central government expenditure outpaced the increase in revenues (8.7%). Tax receipts showed modest growth of 8.4%. The deficit was financed through increased borrowing, both domestic and external. In particular, the external public debt in dollars rose by 12.3%. In 2004, given the payments to be made on public debt securities in the first few months and the pressure to make faster progress in implementing the Peace Agreements, the public deficit is likely to reach a figure of between 2% and 3% of GDP.

In 2003 the central bank continued to trade actively on the open market and to receive deposits from the central government. Thus, during the year the balance of monetary regulation instruments rose by 13.6% and liquidity (M1 and M2), by 5.2% and 6.1%, respectively. Although interest rates continued to fall, ample spreads kept lending rates at around 10% in real terms; deposit rates, meanwhile, were barely positive. Accordingly, credit to the private sector expanded by only 5.7% in nominal terms, which represents a decline in real terms.

Under the floating exchange-rate regime –with occasional intervention by the Central Bank– the quetzal showed a nominal depreciation against the dollar. By October 2003 the local currency had depreciated by 5.7% in nominal terms and 2.8% in real terms in relation to the dollar.

GUATEMALA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.6	2.2	2.4
Consumer prices	8.9	6.3	5.8[b]
Money (M1)	13.0	10.0	10.5
Real effective exchange rate[c]	-4.2	-8.2	4.6[d]
Terms of trade	-2.1	-1.0	-1.8
Annual average percentages			
Urban unemployment rate	…	3.1	3.4
Central government fiscal balance/GDP	-1.9	-1.0	-1.6
Real deposit rate	-0.1	0.8	1.5[e]
Real lending rate	9.3	10.0	10.8[e]
Millions of dollars			
Exports of goods and services	3 905	3 769	3 963
Imports of goods and services	6 070	6 622	6 797
Current account	-1 253	-1 193	-1 109
Capital and financial account	1 727	1 215	1 489
Overall balance	474	22	380

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] A negative rate signifies an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Average from August 2002 to July 2003, annualized.

GDP growth in 2003 (2.2% in 2002) was driven by consumption (3.5%), both public (4.5%) and private (3.5%), the latter stimulated by a sharp rise in wages; this combined with lower import growth of 2.4%, compared to the 2002 figure of 8.4%. Gross fixed capital investment fell by 0.6% and inventories, by 15.9%, which counteracted their increase in 2002. The ratio of gross fixed investment to GDP in 2003 was thus less than 16%.

Significant features of productive activity were the decline in construction activity (4.3%), the slowdown in the agricultural sector (1.1%, compared to 1.8% in 2002) and stagnation in manufacturing (0.7%). While mining was more dynamic, it too lost momentum (3.4%, compared to 9.8% in 2002). In basic services, transport and communications continued to increase (5.5%), in the latter case because of the growth in cellular telephone services. Other services grew by 2.9% thanks to higher expenditure on government services (5%) and a moderate upturn in financial services (2.7%). In view of this sluggish expansion, open unemployment stood at 3.4% and underemployment, at 16% of the economically active population. The agricultural minimum wage went up by 14% in nominal terms and 8% in real terms, while other minimum wages rose by 16% (10% in real terms).

Although inflation tended to accelerate in the second half of the year, resulting in a slight rise in interest rates, the estimated increase in the consumer price index in 2003 was 5.8%, which was lower than the level recorded in 2002 (6.3%).

The growth of exports (6.1%), which outpaced that of imports, was sustained by an upsurge in international demand, a recovery in the prices of coffee, oil and certain export products and the real depreciation of the local currency. In view of high import levels in 2002, however, the deficit on trade in goods and services was similar to the previous year's figure, at around US$ 2.94 billion. The rise in net payments of profits and dividends (21.6%) was offset by the net inflow of current transfers, mainly family remittances, which increased by 9% in 2003. The current account deficit thus remained at about the same level as in 2002, and declined from 5.1% of GDP in 2002 to 4.5% in 2003.

Merchandise exports were up by 6%, driven by non-traditional products (12.4%), in particular clothing (54.7%), fruit and fruit preparations (42.4%) and food products (34.2%). Meanwhile, exports to other Central American countries increased by 5.2%. The value of traditional exports grew by 5.1% owing to the significant rise in the price of oil, sales of which were up by 18%, and in coffee exports (21%), which rose in both value and volume as a result of improvements in highland crops. In contrast, declines were observed in exports of cardamom (1.7%), bananas (6.4%) and sugar (9.3%).

Imports lost momentum, growing by only 2.4%, compared to 8.5% in 2002. Imports from Central America were down by 0.6%, while purchases from the rest of the world slowed down (2.8%, compared to 12.3% in 2002). Imports of capital goods fell by 5% and those of consumer goods remained stagnant (0.8%), while imports of intermediate goods rebounded by 7.4%, in view of higher fuel and lubricant prices (34.7%).

The increase in external borrowing, due in part to a government bond issue in the amount of some US$ 300 million, and inflows of short-term capital boosted international reserves by US$ 380 million, bringing the balance to US$ 2.75 billion. Foreign direct investment, however, remained stagnant.

Honduras

After two years of stagnation and decline in per capita output, the Honduran economy showed signs of recovery in 2003. GDP grew by 3%, raising per capita output by 0.4%.[2] This upturn, which was due to the recovery of both domestic and external demand, was not, however, sufficient to change the unfavourable trends observed in the labour market. At the same time, although the external deficit and the fiscal deficit widened, inflation dipped to 7.2% in a climate of exchange rate stability.[3]

Since the country failed to comply with the previous programme agreed upon with IMF, the authorities gave priority to macroeconomic stability rather than growth, with the aim of signing a new three-year programme with that institution.[4] However, owing to the delay in signing the agreement, the economy operated in a context of uncertainty. The agreement would not only send positive signals to investors regarding the credibility of the country's macroeconomic policies, but would also provide additional resources from multilateral institutions. Moreover, it would enable Honduras to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, a key objective in the authorities' efforts to fight poverty, since it would mean external debt relief of more than US$ 900 million over the next 15 years (US$ 550 million in net present value). Those resources would be used to combat poverty under the poverty reduction strategy that began to be implemented in 2002.

If external demand continues to improve, driven by growth in the United States (the country's main trading partner), Honduras could achieve growth of close to 4% in 2004, in a more stable macroeconomic environment. The balance-of-payments current account deficit would continue to increase, reaching about 6.6% of GDP, because of higher import levels resulting from the upturn in investment. The biggest question mark is the political viability of the fiscal adjustment, as government initiatives in this area prompted considerable criticism in the previous biennium.

The central bank's monetary programme for 2003 foresaw growth of between 3% and 3.5%, together with annual inflation of 7.5% to 8% and a central government fiscal deficit of 3.5% of GDP.

The Fiscal Responsibility Act now under discussion is the current administration's third reform in two years, as the previous two reforms yielded much less income than expected. Strong opposition from business groups prevented the implementation of some of the provisions of the Tax Equity Act adopted in April. The government suspended the provision for the withholding of 2.5% of income tax, one of the pillars of the reform. In the last quarter the authorities passed a general tax amnesty in order to regularize the situation of many taxpayers.

Total central government income increased from 19.4% of GDP in 2002 to 19.9% in 2003, while expenditure rose by one point to 25.3% of GDP. An unexpected increase in outlays was posted, mainly because of an agricultural debt forgiveness law passed by the Congress at a cost equivalent to 1.2% of GDP. As a result, the fiscal deficit exceeded projections, reaching 5.4% of GDP.

In the first three quarters monetary policy focused on pumping liquidity into the economy to produce a recovery through a reduction in interest rates, in the context of a gradually declining inflation rate and a stable exchange rate. In the fourth quarter, the issuing authority changed its approach to prevent the existing liquidity from being used to put pressure on the lempira in the foreign exchange market, given the large fiscal

2 Output grew by 2.7% in 2001 and 2.4% in 2002, resulting in per capita GDP variations of 0.0% and -0.2%, respectively.
3 In the 12 months ending in November 2003.
4 This programme is to be signed in the first quarter of 2004.

HONDURAS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.7	2.4	3.0
Consumer prices	8.8	8.1	7.2[b]
Money (M1)	3.1	9.1	12.4
Real effective exchange rate[c]	-2.1	1.9	2.1[d]
Terms of trade	-2.2	-3.0	-2.8
Annual average percentages			
Urban unemployment rate	5.9	6.1	7.7[e]
Central government fiscal balance/GDP	-6.0	-5.2	-5.4
Real deposit rate	5.3	5.3	4.8[f]
Real lending rate	13.8	13.6	13.6[f]
Millions of dollars			
Exports of goods and services	2 436	2 458	2 601
Imports of goods and services	3 511	3 492	3 928
Current account	-293	-243	-454
Capital and financial account	293	307	455
Overall balance	0	64	1

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from November 2002 to November 2003.
[c] A negative rate signifies an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] May.
[f] Average from September 2002 to August 2003, annualized.

deficit and the ongoing negotiations with IMF. Thus, the expansion of the three monetary aggregates until September, at rates higher than 10%, was attenuated by means of open-market operations in local currency and dollar-denominated certificates.

Weighted lending rates went from 22.06% to 20.47% between December 2002 and September 2003, while average deposit rates fell from 9.57% to 8.18% in the same period. This placed the interest-rate spread at 1,136 basis points. The reduction in interest rates, together with brighter prospects for the recovery of external demand, led to a 10% increase in credit demand up to September. Meanwhile, a series of mergers and acquisitions took place in the banking sector, as part of a turbulent consolidation process that has included various liquidations in recent years.

Exchange-rate policy has been geared to keeping the rate competitive and constant in real terms relative to the currencies of the country's main trading partners. The lempira depreciated by 5% over the 12 months ending in October under the system of daily public auctions of foreign exchange, meaning that the real exchange rate stayed practically the same. Trade policy revolved around the negotiations on a free trade agreement between Honduras, together with the other Central American countries, and the United States; the process was completed within one year as foreseen. In the meantime, the Central American Customs Union was put on hold.

Early in the year Nicaragua temporarily suspended its 35% tariff surcharge on Honduran exports, which it had applied since December 1999 in retaliation for Honduras's conclusion of a maritime border treaty with Colombia.

The 3% expansion of economic activity was driven by both domestic and external demand. Investment rallied (15%) after three years of decline, while consumption recorded an increase of 2%.

The fastest-growing sector was construction, which expanded by about 20%, almost offsetting the sector's contraction over the previous biennium. Also favourable was the performance of mining (10%), mainly in the quarrying segment. Manufacturing improved significantly (3.7%), thanks to the recovery of maquila activities. The performance of agriculture was uneven: there were downswings in some sectors, such as coffee, bananas and eggs, and upswings in others, such as basic grains, palm and meat.

Electricity, gas and water production increased by 6.2%, almost doubling the growth posted by transport, storage and communications. Commerce, restaurants and hotels were up by 3.5%, while public administration retreated slightly owing to the reduction in central government expenditure.

Consumer prices continued to fall, so that inflation at the end of 2003 (7.2%) was lower than it had been at the end of 2002, as expected. Wholesale prices increased by 5%, exceeding the previous year's rate but still trailing the growth of consumer prices.

Minimum wages went up by an average of 5.6% in real terms. Owing to the time lag between the onset of economic recovery and improvements in the labour market, open urban unemployment rose from 6.1% in 2002 to 7.7% in 2003. The maquila industry, however, added about 15,000 new jobs during the year, which augurs well for the future.

The current account deficit ballooned from an average of US$ 250 million over the last four years to US$ 450 million in 2003, as the trade gap widened by nearly US$ 300 million. Imports grew, by 12%, twice as fast as exports.

Exports of traditional goods continued to decrease, in contrast with non-traditional exports, whose value is now double that of traditional exports. Maquila activity increased by 5% and tourism, by 7%. There was an across-the-board recovery in merchandise imports, particularly purchases of machinery for thermoelectric plants and oil and fuel purchases. Remittances increased by approximately 15%, and to a large extent moderated the current deficit.

The financial account balance of US$ 450 million was sufficient to finance the current account deficit. Foreign direct investment surged by 50%; this rebound was related to the expansion of maquila activities, partly in anticipation of the free trade agreement with the United States and partly in response to that country's economic recovery. Net international reserves declined slightly to a level equivalent to four months' worth of imports.

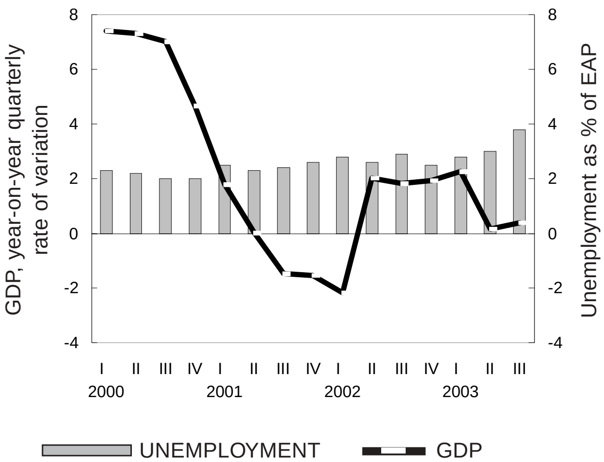
Mexico

In 2003 the Mexican economy was again characterized by low inflation and the disciplined management of public finances, but failed to break out of the low-growth cycle that had begun in 2001. Both the annual variation in the consumer price index (4% up to November) and the fiscal deficit (0.6% of GDP) were in line with the official targets, but the country's real GDP expanded by a mere 1.2%. Gross investment and non-oil exports showed downturns, while public and private consumption were slightly up. As a result, for the third year in a row, per capita GDP declined and open unemployment and part-time employment increased. Meanwhile, the effects produced by the external environment were mixed. On the one hand, oil prices were high –exceeding official projections– and interest rates came down. On the other, the economic recovery in the United States gave very little impetus to Mexican exports, which stalled as low productivity in the manufacturing sector eroded the international competitiveness of the country's products, especially against Asian competitors.

Another disturbing development was a drop in capital formation, also for the third year running. This was attributable to disagreement over the design and implementation of economic reforms and to the reduced availability of bank credit for productive activities. As a result, the business climate was clouded by uncertainty and a shortage of financing. Although fiscal, energy and labour reforms came up for discussion, no consensus was reached on their definition or implementation. While there is general agreement on the need to strengthen public finances, guarantee the long-term supply of electric power and modernize labour laws, neither the Congress nor the general public has been able to agree on the best strategies for attaining those ends. The proposed tax reform has been particularly controversial. [5]

5 The government submitted a proposal to reduce the rate of the value added tax (VAT) from 15% to 10% and to extend it to all goods and services, including food and medicine, which are currently exempted from this tax. It also proposed the imposition of an additional 2% tax on sales and services to the public, which would be absorbed by the state governments. As of late 2003 the proposals were still being

MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

The extraordinary inflow of revenue from high oil prices and the decline in interest rates made it possible to meet the fiscal deficit target (0.6% of GDP).[6] The consequent availability of additional resources gave the authorities a degree of leeway in public expenditure. Current expenditure and investment were up by 9.6% and 6.3%, respectively, in the first nine months of 2003 in comparison to the same period of 2002.[7]

Monetary policy continued to be geared to keeping inflation low in the framework of an exchange-rate regime in which the peso's value against the dollar was allowed to float. In the first quarter of 2003 efforts were made to stave off the inflationary pressures that had emerged in 2002. In the course of those three months the annualized rate of expansion of the basic monetary aggregates –M1 and M2– fell by nearly three points, reaching a range of 10% to 11%, while the nominal annual interest rate –on treasury bills (CETES) and interbank operations– hovered around 10%, which was two or three points higher than its value at the end of 2002. The success achieved in containing inflation, together with concerns about sluggish economic activity, paved the way for a loosening of monetary policy. Starting in April interest rates tumbled and the expansion of liquidity proceeded at rates similar to those of 2002.

Monetary management had to contend with speculative movements that set off considerable exchange-rate fluctuations at different times during the year. In late November the exchange rate exceeded 11.20 pesos to the dollar, and the currency's average nominal depreciation over the year was estimated at 13% (or 10% in real terms).

The main monetary policy instrument for influencing nominal interest rates continued to be the so-called *corto*, or target level for commercial banks' cumulative monthly balances in their current accounts at the Banco de México. In the first quarter the *corto* was raised from 475 million to 700 million pesos per month, and in April this measure was replaced with a daily target balance of 25 million pesos (equivalent to 700 million pesos over 28 days). Another factor that influenced monetary policy was the rapid build-up of international reserves in the initial months of the year. In May the oil price hike boosted these reserves to a record level of US$ 55 billion; at the close of the year they amounted to US$ 50 billion. To limit quasi-fiscal losses due to the carrying cost inherent in the build-up of reserves,[8] the Banco de México introduced an ad hoc mechanism to try to slow down the rate of accumulation.

In view of low international interest rates, external liabilities were paid off ahead of time and new debt was incurred on better terms. At the close of 2003 total public debt was equivalent to 26.5% of GDP, a few points higher than its level of 12 months earlier. Part of the increase was due to the peso's nominal depreciation against the dollar.

After picking up by 2.3% in the first quarter, economic activity lost momentum for the rest of the year. The production of goods, especially manufactures, slid steadily until September. Construction was the fastest-growing activity (3.4%, compared to 1.7% in 2002). Basic services rebounded somewhat (2.5%), driven by public expenditure and private consumption. In the country's ailing manufacturing industry, the performance

hotly debated in the Congress, with no sign of convergence among the three major political parties, the tax on food and medicine being the main sticking point.

6 Public budget revenues rose by 4.7% to an amount equivalent to 23.3% of GDP (22.6% in 2002). Oil revenues (which represented one third of the total) increased by 18%, but non-oil revenues dipped by 1%, primarily because of lower non-tax receipts, since tax receipts were up by 2.5% as a result of the increase in VAT revenues (8%).

7 Public-sector financing needs, which encompass all of the public sector's activities, regardless of whether the entities carrying them out are public or private, were equivalent to 3% of GDP, or 3.6% excluding non-recurrent revenues; in 2002 the rates were 3% and 3.4%, respectively.

8 Strictly speaking, the carrying cost is the difference between the rate of return on international reserves and the interest rate that must be paid on the instruments issued to finance their accumulation.

of export segments such as clothing and textiles (-8.2%), wood (-3.9%) and metal products, machinery and equipment (-7.0%) was especially poor.

Rises of 2% in both private and government consumption prevented per capita GDP from sagging even further. Inflows of family remittances and credit schemes for the purchase of consumer goods helped to bring about this result. Housing construction increased as well, thanks to an upturn in mortgage financing. Between January and August gross fixed capital formation retreated by nearly 1%, as the construction sector's renewed vigour (3.3%), primarily in the area of public works, did not offset the drop-off in machinery and equipment purchases (-5.3%).

In 2004 GDP is expected to grow by 2.8% in real terms. A rate this high would reverse the downturn in per capita GDP that began in 2001. Official projections place annual inflation for 2004 at 3% to 4% (similar to the 2002 rate) and the fiscal deficit at 0.3% to 0.5% of GDP. To speed up growth, the country must take steps to revitalize investment and boost manufacturing productivity and international competitiveness. Also important is the achievement of consensus on a tax reform that will raise tax revenues as a proportion of GDP, reduce their dependence on oil earnings and move towards the design of public budgets with medium- and long-term time-frames.

The country's slack economic growth drove up the average rate of open unemployment (from 2.7% in 2002 to 3.2% in 2003), slowed down formal-sector employment and produced an increase in underemployment. The number of people working in the informal sector was estimated at over 20 million, which is half the economically active population. Employment in maquila activities continued to shrink, as the number of jobs in this sector has dwindled by nearly 30% in the past three years.

By the end of the third quarter real wages had dipped by 1% in the maquila export industry and had risen by 1.5% and 4% in manufacturing and commerce, respectively. Productivity growth in the maquila industry, manufacturing and commerce failed to shake off its lethargy of the past five years, amounting to just 1%, 1.2% and 1.5%, respectively, as of July.

Modest increases in the value of exports (2.7%) and imports (1%) had the effect of narrowing the merchandise trade deficit. Up to October oil exports had swelled by 30%, but manufactures, which represent 86% of the total, had retreated (-1.6%), including both maquila (-2%) and non-maquila (-1.2%) exports.

MEXICO: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-0.3	0.8	1.2
Consumer prices	4.4	5.7	4.0[b]
Real wages[c]	6.7	1.7	1.7[d]
Money (M1)	15.1	18.7	9.8
Real effective exchange rate[e]	-6.5	8.6	10.9[f]
Terms of trade	-0.1	0.5	1.0
Average annual percentage			
Urban unemployment rate	2.5	2.7	3.2[g]
Central government fiscal balance/GDP	-0.7	-1.8	-0.6
Real deposit interest rate	6.3	0.5	1.5[h]
Real lending interest rate	9.1	3.5	3.8[h]
Millions of dollars			
Exports of goods and services	171 103	173 454	177 937
Imports of goods and services	184 614	185 419	187 318
Current account	-18 103	-14 046	-8 400
Capital and financial account	25 428	21 135	14 400
Overall balance	7 325	7 090	6 000

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Increase between November 2002 and November 2003.
[c] Manufacturing.
[d] Estimate based on the January-September average.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Variation between December 2002 and October 2003.
[g] Estimate based on the January-October average.
[h] Annualized average for the period November 2002-October 2003.

The smaller merchandise trade deficit, together with a 35% increase in current transfers (mostly remittances), produced a significant reduction in the deficit on the current account of the balance of payments, from 2.2% of GDP in 2002 to 1.4% in 2003. Remittances amounted to some US$ 13.9 billion (US$ 10.3 billion in 2002). These inflows, which were equivalent to about 3% of private consumption, exceeded inflows of foreign direct investment, estimated at US$ 11 billion (US$ 14.4 billion in 2002).

The disappointing performance of non-oil exports was the result of several factors, including feeble productivity growth, the loss of international competitiveness suffered by the country's manufactures and reduced investment in machinery and equipment.[9]

9 Between 2001 and 2003 the share of Mexican exports in the United States market fell from 13% to 12.4%, while the share of Chinese exports surged by more than four points, approaching 16%. In terms of traditional export products such as textiles, clothing and footwear, as well as more sophisticated manufactures such as electronics and automobile parts, some Chinese products are partially displacing Mexican ones. In the textiles segment China's share jumped from 10.7% in 2002 to 14.6% in 2003, while Mexico's share slumped from 13.7% to 11.1%.

Foreign direct investment (FDI) is still one of the most important components of the capital account, but it brought in a smaller net inflow of foreign exchange in 2003 than in 2002. In 2003 most FDI was funnelled into the production of internationally tradable goods: manufacturing received 54% of the total, followed by financial services (21%), commerce (13%) and transport and communications (5.5%). The United States was once again the primary source of such investment.

Nicaragua

Despite increased consumer demand and a rise in public investment, GDP increased by only 2.3% in 2003 owing to the fall in private investment and the virtual stagnation of exports. Given the rate of population growth, per capita GDP slipped by 0.4%, bringing the cumulative downturn for the biennium 2002-2003 to 2.3%. Thus, as in 2002, the growth forecasts set out in the Strengthened Growth and Poverty Reduction Strategy did not materialize.

Economic policy was formulated within the framework of the financial support programme signed with IMF in December 2002. The fiscal deficit was reduced from 4.1% to 2.3%, which made it easier to achieve monetary policy targets concerning price and exchange-rate stability. The fall in the balance-of-payments current account deficit, combined with capital inflows, helped to strengthen the international reserve position. The country's fulfilment of its commitments with IMF will increase its chances of reaching the "completion point" under the Heavily Indebted Poor Countries (HIPC) Initiative by the end of the year. This would afford it debt relief amounting to 80% of the external public debt, estimated at US$ 6.4 billion.

In 2003 the country pursued its macroeconomic adjustment process in an effort to reduce the extreme financial and external vulnerability caused by a growing fiscal deficit, mounting liabilities, an increase in the central bank's quasi-fiscal deficit, a strong upswing in domestic public debt and declining net international reserves. Macroeconomic policy therefore took an austere approach.

In order to permit fiscal targets to be reached and to reinforce the poverty reduction strategy, in February 2003 the National Assembly adopted an amendment to the law providing for the expansion of the tax base. In addition, at the end of April it passed reforms of the tax system and general budget for 2003. This tax reform, whose object is to improve the tax system, includes tax incentives to promote exports. Higher budgetary allocations for various social sectors and an upturn in investment in infrastructure were also approved. As a result of the curbing of public expenditure and increased fiscal revenues, the central government's deficit narrowed from 4.1% of GDP in 2002 to 2.3% in 2003.

The tighter fiscal policy was designed in conjunction with a looser monetary policy. The main aims were to ensure that international reserves remained at a level conducive to the maintenance of exchange-rate stability as an anchor against inflation, and to reduce domestic debt with a view to increasing liquidity in the banking sector and thus narrowing interest-rate spreads. This coincided with the beginning of the process of recovering the assets of commercial banks that had been liquidated in previous years.

In the first half of the year the reserve requirement was maintained at 19.3%, of which three percentage points bore interest. The central bank decided to gradually reduce the interest-bearing portion starting in July, so that in December the reserve requirement stood at 16.3%. In the middle of the year the central bank's debt with private banks was renegotiated for the first time. Under the agreement, interest and principal payments on the negotiable investment certificates acquired by the main creditor bank were rescheduled for 10 years at an interest rate of 8.4%. As a result of this operation, the central bank will defer payments amounting to US$ 250 million in 2004, thereby improving its reserve position and making the tax programme more flexible, in the interests of production and social programmes.

In 2003 Nicaragua's economy showed signs of a modest recovery. After three straight years in which growth slowed considerably, GDP increased by about 2.3%. As exports virtually stood still, the modest upturn in domestic demand (1%) was due to increased public investment (9.2%) and consumption (3%). Consumption was boosted mainly by increases in family remittances, real wages and consumer and housing loans, given that private investment spending was down by 17.6%. On the supply side, the increase in GDP largely reflected the higher value added of construction, manufacturing (particularly in free trade zones) and transport, as well as a moderate recovery in the agricultural sector.

The poor performance of agricultural production for export was once more offset by the increased output of basic grains, thanks to technical assistance programmes. Services expanded at a rate similar to the one posted the previous year. Financial services, telecommunications and commerce turned in the strongest performances.

Although inflation was over two percentage points higher than its 2002 level, the annual inflation rate (6.5%) is almost in line with the established target. The rise in prices was due to short-term factors such as higher fuel and transport costs, adjustments in the rates charged for basic services and the effects of the tax reform on production costs, rather than to a deterioration of monetary conditions or an increase in domestic expenditure. The growth of the country's economy had a positive effect on employment and average real wages.

The recovery of economic activity was accompanied by a reduction of the external imbalance. The current account deficit (US$ 800 million) decreased by 9% as a result of the smaller trade deficit and an increase in current transfers (15.5%), especially family remittances, which remained on the upward trend seen in preceding years. Net capital inflows, including foreign direct investment, made it possible to finance the balance-of-payments current account deficit, increase net international reserves and provide stronger foreign-exchange backing for the monetary base.

NICARAGUA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	3.1	0.7	2.3
Consumer prices	4.8	3.9	5.3[b]
Real wages	4.3	4.3	2.4[c]
Money (M1)	15.3	0.1	2.2
Real effective exchange rate[d]	4.4	4.4	3.3[e]
Terms of trade	-8.3	-1.6	-3.4
Annual average percentages			
Urban unemployment rate[f]	10.7	12.9	…
Central government fiscal balance/GDP	-8.7	-4.1	-2.3
Real deposit rate	6.8	3.7	1.6[g]
Real lending rate	13.6	13.9	11.6[g]
Millions of dollars			
Exports of goods and services	947	916	936
Imports of goods and services	1 973	1 974	1 974
Current account	-932	-883	-804
Capital and financial account	665	673	519
Overall balance	-266	-210	-285

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from October 2002 to October 2003.
[c] Estimate based on data from January to July.
[d] A negative rate signifies an appreciation of the currency in real terms.
[e] Variation from December 2002 to October 2003.
[f] Official estimates.
[g] Average from August 2002 to July 2003, annualized.

The value of merchandise exports was up by 1.4%, whereas imports dipped slightly (0.8%). The increase in exports was due to the upturn in sales of traditional products and the buoyancy of net exports from free trade zones, particularly maquila exports of textiles, since sales of non-traditional products shrank by 4%. The fall in imports reflected a decline in imports of capital goods, related in part to the completion of the investment cycle for the modernization and privatization of State enterprises. Imports of raw materials and intermediate goods, on the other hand, trended upward owing to the increase in purchases of oil, fuels and lubricants and imports of raw materials for industry and construction. At the same time, purchases of consumer goods rose considerably as credit became more readily available.

Panama

The main feature of the Panamanian economy in 2003 was a moderate recovery. The growth rate of about 3%, after two years in which it fell short of 1%, was higher than expected thanks to domestic demand and international services, and a slight increase is expected for 2004. Inflation remained low, the fiscal deficit widened slightly and the balance-of-payments current account deficit held steady at around 1% of GDP.

The government took advantage of the powers granted under the three fiscal laws promulgated in 2002 to define the economic policy framework, and implemented various infrastructure projects that facilitated the recovery of private activity. Construction grew rapidly as a result of fiscal incentives that entered into force in 2003 and expire in December 2004. Lastly, tourism posted good results, partly owing to the Republic's centenary celebration.

Tax revenues were up by 8% thanks to the 2002 tax reform and the recovery of economic activity. Other revenues contracted, however, so that total central government receipts increased by only 3%. Expenditure grew by 4%, although debt interest payments expanded by 8% and amounted to almost one quarter of total central government expenditure.

As a result of these trends, the central government deficit was equivalent to slightly more than 2% of GDP, but other public entities had surpluses, so that the negative balance of the non-financial public sector was lower.[10] In any case, the constant increase in the fiscal deficit in recent years raises questions, in view of the high level of debt. Public external debt increased by US$ 140 million, while total public debt rose to US$ 8.64 billion, equivalent to 67% of GDP.

With regard to trade policy, efforts to open external markets to the country's products continued in 2003 with the signature and entry into force of a free trade agreement with Taiwan Province of China. Moreover, the authorities formally announced the opening of negotiations for a free trade agreement with the United States.

For the banking sector, 2003 was a year of consolidation after the crisis caused by turbulence in some South American countries in 2002. Assets contracted slightly owing to the reduction in external assets, but profits, before provisions, grew by around 10%. Equity continued to grow in a situation of high liquidity, and the non-performing loan portfolio indicator continued to fall, going from 3.1% in 2002 to 2.7%. The banking system was also restructured, with the exit of various entities based in OECD countries and the entry of Central American banks.

Nominal interest rates on both deposits and loans dipped slightly, following the international pattern, although the lower inflation rate means that they increased slightly in real terms. Domestic credit demand improved, while external credit again declined. Mortgage loans expanded by 8% thanks to the extension of preferential interest rates for 10 years, while business and consumer loans rose more slowly.

The increase in GDP of about 3% reversed the tendency of per capita output to decline over the past two years. After a three-year slump, investment and the buoyancy of some export sectors once again boosted growth, while consumption grew more moderately.

The performance of the different sectors was uneven, as the upward trend has not yet extended to all of them. New service sectors (ports, telecommunications and tourism) did well, with rates that exceeded the average for the economy as a whole, but the Colón Free Zone and the international banking centre experienced contractions of about 5%.

10 The fiscal deficit of 2.6% of GDP shown in the table in this section and in the statistical appendix was calculated using the ECLAC database on GDP in local currency. Panama has revised its national accounts estimates, but has not yet published all the results. Once the new series are published, ECLAC will update its statistical database. The fiscal account figures in nominal terms included in this report coincide with those provided by official sources.

PANAMA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	0.4	0.8	3.0
Consumer prices	-0.1	1.9	1.3[b]
Real effective exchange rate[c]	2.5	0.7	3.7[d]
Terms of trade	0.5	-1.0	-2.1
Annual average percentages			
Urban unemployment rate[e]	17.0	16.5	15.6
Central government fiscal balance/GDP	-2.0	-2.4	-2.6
Real deposit rate	6.9	3.0	3.3[f]
Real lending rate	10.7	7.2	7.7[f]
Millions of dollars			
Exports of goods and services	7 997	7 567	7 275
Imports of goods and services	7 794	7 625	7 132
Current account	-174	-92	-130
Capital and financial account	818	152	111
Overall balance	644	60	-20

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from September 2002 to September 2003.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Variation from December 2002 to October 2003.
[e] Includes hidden unemployment.
[f] Annualized November 2002-October 2003 average.

Some agricultural activities (fruit and coffee growing) and fishing posted good results, while other segments, such as bananas and livestock, continued to perform poorly. The fishing industry surged by more than 20%. Mining and quarrying have performed well thanks to the extraordinary upswing (of about 25%) in construction. This resulted from temporary fiscal incentives for the sector, the start-up of private projects that had been delayed in the previous three years and the launching of various public-sector infrastructure projects. Manufacturing output diminished, and only cement production managed to avoid an even more serious decline.

The Panama Canal Authority achieved a positive result owing to an increase in tolls, as vessel traffic was down slightly. Domestic commerce shows signs of reviving, though still at modest rates.

Prices followed their traditional pattern of very small variations in comparison to those of other countries, rising by 1.3% between September 2002 and September 2003. The increase was more pronounced in the first half of the year owing to high international oil prices. Wages stayed virtually the same in real terms, and the urban unemployment rate was down from 16.5% in 2002 to 15.6%.

The balance-of-payments current account deficit stood at US$ 130 million, around 1% of GDP. Inflows to the financial account (including errors and omissions) were not sufficient to cover this deficit, and the overall balance ran a small deficit of US$ 20 million.

Exports contracted as a result of the decline in re-exports from the Colón Free Zone. This was due to the rather tepid economic performance of Venezuela, Colombia and Ecuador, Panama's main trading partners. Although prices are still low, the preliminary results for the third quarter show an improvement in volumes, which may augur a turnaround in free-zone operations. Meanwhile, locally produced exports rebounded to some extent. Non-traditional exports kept up their strong showing of previous years, with sales of watermelon, fish meal and fish oil expanding by more than 50%. Coffee exports also increased, but exports of other traditional products contracted.

Imports slipped for the fourth consecutive year, again reflecting a downturn in Colón Free Zone purchases, as total imports to the rest of the country scarcely changed. Within the latter category, imports of petroleum products rose by more than 50%, but imports of other products diminished.

A significant element in the financial account was the inflow of foreign direct investment, estimated at almost US$ 600 million. This was six times the previous year's figure, but represents a return to normal, as the 2002 level was exceptionally low.

THE CARIBBEAN

Bahamas

The moderate 2% growth of the Bahamian economy approximated the 2002 rate and reflected the gradual recovery of tourism after its expansion came to a standstill in 2001. Inflation, at 2.5%, sped up slightly, while the fiscal deficit and the balance-of-payments current account deficit narrowed.

Tax revenues increased by 4% between fiscal years 2001/2002 and 2002/2003, while the authorities kept a tight rein on expenditure.[1] Tax incentives for certain economic activities (including the establishment of tax-free zones in low-growth areas and higher exemptions and lower property tax rates for first-time home buyers) did not significantly affect fiscal performance, and the deficit contracted from B$ 171 million in fiscal year 2001/2002 to B$ 87 million in the first 11 months of the next fiscal year. Initial data for fiscal year 2003/2004 show that fiscal performance is continuing to improve, thanks to the efforts made to control expenditure. A central government deficit of 2.5% of GDP is expected, compared to 3.4% in the previous period.

The deficit will be financed mainly with external resources. In July 2003 the authorities issued a bond for US$ 200 million, with a 30-year maturity. In September the public debt, 80% of which consists of external debt, reached US$ 2.41 billion, which is 7% higher than the previous year's level. Between September 2002 and September 2003 debt servicing rose from 26% to 31% of GDP.

To counteract the effects of the increase in international reserves (29% from September 2002 to September 2003) on liquidity, the authorities applied a tight monetary policy, and the net domestic assets of the central bank contracted by 4.1% over the above-mentioned period. The limits on commercial bank loans introduced as a precautionary measure after the events of 11 September 2001 were maintained.

As a result, the monetary base contracted by 1.7% and the monetary aggregates M1 and M2 expanded at rates similar to those of the previous year (6% and 2%, respectively, from September 2002 to September 2003). In accordance with monetary policy, in the same period interest rates rose from 11.4% to 12%. This dampened the demand for credit, so that by September 2003 credit had grown by just 1.4%, compared to 3.5% twelve months earlier.

GDP grew by 2%, primarily reflecting a moderate recovery in tourism and a weak performance in construction. The number of tourists increased by 2.7% owing to a rise in sea arrivals, since air arrivals stagnated. Tourist expenditure was up by 1.7%. The decline in

1 The fiscal year runs from July to June.

mortgage loans reflected reduced activity in both commercial and residential construction. This sector is expected to rally, however, as a result of increased foreign direct investment in tourism infrastructure.

The 12-month inflation rate increased in comparison to the previous year, from 1.9% at the end of 2002 to 2.5% in September 2003. The biggest increases were in recreation, entertainment and health services. Unemployment is expected to stay at the previous year's level (9%) in view of the sedate pace of economic growth.

The overall balance of payments result was positive, partly because of the smaller current account deficit produced by the decline in imports, which, in turn, reflected the restrictive monetary policy. Meanwhile, the surplus on the capital and financial account (including errors and omissions) increased despite short-term capital outflows through the banking system.

Barbados

The economy of Barbados posted moderate growth (2.5%) in 2003. As in other Caribbean nations, this result is mainly due to the recovery of tourism after the attacks of 11 September 2001 in the United States. Both the number of visitors and tourist expenditure increased. Inflation rose slightly because of higher fuel costs, and the unemployment rate also rose. The balance of payments was positive thanks to the capital and financial account surplus, which more than covered the current account deficit. The outlook for 2004 is that moderate growth will continue and will have a favourable effect on the government accounts.

The fiscal deficit for fiscal year 2002/2003 amounted to 5.4% of GDP because of a marginal decline in income (-0.3%) and a moderate rise in spending (4.1%).[2] The spending increase was due to higher expenditure on salaries and wages (5.7%) and to purchases of goods and services (5.9%). Capital expenditure, in contrast, diminished (-6.7%), partly because of the completion of investment projects. The deficit was financed primarily from domestic sources, particularly the government's deposits with the central bank.

The projections for fiscal year 2004/2005 estimate increases in current income and expenditure of 2.2% and 3%, respectively. In contrast, capital expenditure will contract by 18.5%, so that total expenditure will rise by only 1%. A positive overall result is expected, in an amount close to BDS$ 16 million.

The monetary authorities maintained a cautious stance. As a financial agent of the government, the central bank had to issue treasury bills for a nominal value of BDS$ 130 million to cover the fiscal deficit. Between January and September the total value of the debt issued increased by 17%.

Most treasury bills were absorbed by the banking system, in view of excess liquidity. The large-scale accumulation of excess reserves in the banking system, equivalent to 64% of total reserves in August, was the result of growth in liabilities and a slight expansion of assets. In particular, savings deposits by individuals climbed by 12%, while the demand for credit increased by only 4.7%. The meagre demand for loans reflected the modest and unequal growth of the different economic sectors.

2 Barbados's fiscal year runs from April to March.

BARBADOS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-2.2	-0.4	2.5
Consumer prices	2.8	0.2	1.5
Money (M1)	9.6	24.8	-9.6
Real effective exchange rate	2.4	3.5	2.5
Annual average percentages			
Unemployment rate	9.9	10.3	11.7
NFPS fiscal balance/GDP	-3.8	-5.6	-4.2
Real deposit rate	0.3	6.5	0.8[b]
Real lending rate	8.1	10.1	8.3[b]
Millions of dollars			
Current account	-94	-171	-231
Capital and financial account	321	187	303
Overall balance	227	16	72

Source: Statistical appendix.
[a] Preliminary estimates to third quarter.
[b] August.

The demand for loans increased in extraction activities, distribution, tourism and entertainment and the food industry, but contracted in agriculture, fishing, other branches of manufacturing and transport. The strong demand for treasury bills exerted downward pressure on interest rates; the three-month rate on treasury bills declined from 1.36 to 0.94 between January and August. Interest rates in the banking system also tended to decline, albeit moderately, as the average deposit rate went from 2.59% to 2.55% between January and September and the lending rate, from 10.42% to 10.17%.

Tourism was the standout in the Barbadian economy's expansion in 2003, while most other sectors stalled or grew only moderately. Sugar production was down by 12% because of weather-related factors and operational difficulties in some sugar plants. Other agricultural crops stagnated. Fishing improved in comparison to the previous year, rising from a decline of 7.4% to an increase of 7%, but this positive contribution was counteracted by declines in milk and chicken production.

Manufacturing stagnated because of sharp declines in electronics (owing to a plant closure) and chemicals. Construction maintained its moderate growth of the previous year (3%), as residential activities stalled and public-sector infrastructure projects were gradually completed.

The tourism sector regained its traditional vigour in 2003 with a 6% increase, after a 3% fall in 2002, thanks to the recovery of cruise-ship arrivals. This improvement was due in part to the sector's gradual return to normal after the events of 11 September 2001, and also to the promotional activities launched by the authorities, including the "Best of Barbados" campaign.

Buoyed by the robust growth of tourism, the transport, storage, communications and commerce sectors expanded by about 3% in 2003, after their weak performance of the previous year.

Tourism is expected to continue its recovery in 2004. In late 2002 the authorities adopted a law on the development of the hotel sector, with a view to raising the country's profile as a tourist destination; this step should give the sector a significant boost.

The inflation rate, measured by the consumer price index, increased from 0.2% in 2002 to 1.5% in 2003 as a result of the expansion of economic activity, in a context of stable international prices. The biggest increases were in fuels and electricity, medical and personal care and food, which were offset in part by declines in the cost of housing, clothing and footwear and of alcoholic beverages and tobacco.

The unemployment rate rose from 10.3% in 2002 to 11.7% in 2003 as job creation in activities related to tourism, commerce, transport and communications was more than offset by job losses in other economic sectors. Male unemployment increased from 8.7% in 2002 to 10.5% in 2003, while the female rate rose from 12.1% to 13%.

The overall result of the balance of payments was positive thanks to the capital and financial account surplus (of 14% of GDP, including errors and omissions), which more than compensated for the current account deficit (of 6.6% and 8.6% of GDP in 2002 and 2003, respectively). Accordingly, international reserves increased by US$ 141 million and kept import coverage at the previous year's level (31 weeks, including both goods and services).

Exports, which include sugar, electrical components, chemicals, and food and beverages, were listless owing to internal problems such as poor weather conditions, technical difficulties and the closure of a chemical plant. The growth in imports (10%) was attributable to the upturn in economic activity. The categories with the largest increases were consumer goods (8%) and intermediate purchases (12%).

The services account (4.3%) reflected the recovery and brisk growth of the tourism sector. Current transfers grew by 8% and the income account posted a negative result owing to debt interest payments and profit repatriation.

The capital and financial account surplus reflects inflows of foreign direct investment to the tourism sector

(US$ 92 million and US$ 158 million in 2002 and 2003), the repayment of a loan granted by the government of Barbados to a tourism company and the sale of government shares in the Barbados National Bank to the Republic Bank, based in Trinidad and Tobago. The latter two items brought in long-term public capital in the amount of US$ 79 million.

For 2004 it is expected that the current account deficit will remain above 6% of GDP, as a result of expanding economic activity and continued low export growth. This deficit will be covered by foreign direct investment aimed at the development of the tourism sector and by the proceeds of the privatization programme currently being carried out by the government.

Belize

In 2003 economic growth in Belize (4%), as in other Caribbean countries, was driven mainly by the recovery of tourism after the crisis caused by the events of 11 September 2001. The restrictive stance of economic policy prevented faster growth, as the authorities sought to reduce the unwieldy fiscal deficit and prevent international reserves from declining further. Inflation was once again very low.

In fiscal year 2002/2003 the central government focused on reducing the budget deficit to 5% of GDP. The deficit had reached 9% in the previous period owing to a policy aimed at expanding aggregate demand by increasing capital expenditure. The fiscal year now ending saw a sharp contraction in investment outlays (43%) and a satisfactory increase in fiscal revenues (8%).

A further cutback in investment expenditure and a reduction of the fiscal deficit to 3% of GDP are planned for fiscal year 2003/2004. Capital outlays financed from local sources will be cut by 48%, while those financed from foreign sources will drop by 24%. Together with an estimated 11% increase in fiscal revenues, in particular from international trade (19%), the restriction of capital expenditure is expected to compensate for the rise in current expenditure caused by increases in wages and social security.

The fiscal deficit will be financed mainly from external sources. This financing includes US$ 125 million obtained for debt restructuring, the placement of a US$ 200 million bond issue in June, US$ 34 million from multilateral creditors and US$ 8 million from bilateral creditors. This improved access to international resources will maintain the upward trend in the level of external debt, which increased from US$ 556 million to US$ 674 million between January and September 2003.

Net international reserves diminished during the year, mainly because of the increase in debt servicing. The central bank's external assets decreased by 4% between January and September 2003, and the foreign-currency assets of commercial banks also declined.

The contraction in net external assets was accompanied by an 8% increase in total net domestic credit (credit to the private sector grew by 10% and credit to the public sector fell by 12%). As a result, the level of liquidity decreased by 10% in the case of narrow money and 4% in the case of broad money, causing a slight upturn in deposit rates, from 4.4% in September 2002 to 4.9% in September 2003. Lending rates remained at the same level as in 2002 (14%) owing to weak demand for credit in the private sector.

GDP growth (4%) reflected the performance of certain agricultural products, the fishing industry and continued growth in the tourism sector.

The agricultural sector posted mixed results. The sugar cane harvest was down by 6.7% because of adverse weather conditions, low productivity in the cane fields and the producers' high levels of debt. Similar factors reduced shipments of citrus fruit (4.2%).

BELIZE: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	4.7	3.7	4.0
Consumer prices	1.1	2.3	2.3
Money (M1)	17.6	-1.8	-1.3[b]
Annual average percentages			
Real deposit rate	3.2	2.2	2.4[c]
Real lending rate	14.1	11.9	11.8[c]
Millions of dollars			
Current account	-185	-163	-163
Capital and financial account	181	158	127
Overall balance	- 4	- 5	- 36

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from September 2002 to September 2003.
[c] Rate in September.

In contrast, banana output increased despite the fall in prices, owing to improvements in production methods, coordination between the harvest cycle and market demand and the penalty imposed for unused cargo space, which was intended as an incentive for making optimum use of available cargo capacity. There was also growth in seafood production, which recovered from the effects of contamination by parasites and adverse external conditions. Manufacturing (1.2%) benefited from increases in the production volume and prices of clothing.

The tourism sector expanded because of a 58% increase in total visitor arrivals between January-September 2002 and the same period of 2003, mostly due to cruise-ship calls (98% over the same period). These results do not reflect the full potential of tourism in Belize, which offers one of the most diversified tourist destinations in the Caribbean and Central American subregion. In addition to traditional seaside tourism, this country has the world's second-largest barrier reef and the heritage of Mayan culture. As it is the least deforested country in the Central American isthmus, Belize is also home to a wide variety of wildlife.

Inflation remained at the previous year's level (2.3%), thanks to stable international prices, monetary control and the moderate expansion of economic activity. In February the government announced wage increases for public-sector employees, to be implemented in three stages in 2003 and 2005.

The balance-of-payments deficit (including errors and omissions) increased from US$ 7 million in 2002 to US$ 36 million in 2003, while the current account deficit rose to US$ 129 million, which represents an increase of 16%. This deficit was larger than the capital and financial account surplus (US$ 99 million), resulting in an erosion of international reserves.

The current account imbalance was due to the widening of the merchandise trade deficit (by 11% over its 2002 level) and the negative balance on the income account (by 12% over the 2002 level). The trade deficit stemmed from the lacklustre performance of the main traditional export segments (except bananas and seafood) as a result of adverse weather conditions, low prices, poor management, low productivity and the large debts incurred by agricultural producers. The deficit on the income account was mainly due to interest payments on external debt.

The non-factor services account surplus improved significantly (41%) because of the growth in tourism. The positive balance of those services, together with the transfers account surplus (US$ 29 million), made it possible to finance 69% of the current account deficit.

The capital and financial account surplus was attributable to foreign direct investment inflows (of US$ 19 million in 2002 and US$ 14 million in 2003) and, in particular, to foreign exchange inflows from the bond issue on the international market.

Cuba

After three years of slowing growth, the Cuban economy turned in a more robust performance in 2003, with a growth rate of 2.6% as opposed to 1.2% the previous year. This upturn was driven mainly by increases in foreign tourist arrivals, family remittances, goods exports and repair work following the damage caused by three hurricanes that hit the island in 2001 and 2002.

Economic policy again had little room for manoeuvre, however, as it was constrained by a relative shortage of foreign exchange caused by a stagnation in foreign direct investment, a rise in the cost of servicing external debt (mainly interest), cash payments for food and agricultural imports from the United States and a fresh downturn in the terms of trade.

Although transfers from abroad continued to expand (US$ 915 million), the balance-of-payments current account deficit widened slightly to 1.1% of GDP. This reflected an increase in the goods and services trade deficit and in factor service payments, in the latter case because of interest on external liabilities and the repatriation of profits generated by foreign direct investment on the island.

External demand, which was up by 10%, and the expansion of government consumption (6.2%) both acted as a powerful engine of GDP growth. A rise in current fiscal expenditure (8.9%) pushed the fiscal deficit to 3.4% of GDP, as against 3.2% in 2002, but money in circulation (M1A) declined appreciably, from 44.5% of GDP in 2002 to 38.4% in 2003. The market exchange rate held steady at 26 Cuban pesos to the dollar; the official rate remained unchanged at one peso to the dollar.

Tax revenues rose by 8.9%, while non-tax revenues slipped by 2.1%. The higher tax receipts reflected an increase of 11.9% in indirect levies and a smaller rise of 4.7% in direct taxes. The jump in indirect tax receipts was due to an increase in the rate of circulation and sales taxes (11.6%) and service taxes (14.2%). Personal income taxes (8.7%) were the main component of the rise in direct levies, owing to larger receipts from small-scale farmers, since the intake from own-account workers contracted. Revenues from the tax on the utilization of the labour force also rose (2.8%).

Current expenditure rose by 8.9% owing to increases in budgetary allocations for social assistance (93.5%), science and technology (36.6%), culture and art (13.8%), sports (9.4%), education (9%), public health (6.6%), social security (3.3%) and municipal services (2.4%), in keeping with the strong social slant of fiscal policy.

The amount of budgetary resources channelled into capital formation was down by 2.5%, but priority was given to the construction of housing for the victims of hurricanes Isidore and Lili and to the tourism development programme. Large slices of investment were also earmarked for the sugar industry, forestry development, the development of pastureland and shade tobacco, improvement of soil and waterworks and repair work on schools and public health facilities.

The decline in money in circulation reflected increased sales of convertible currency by the network of currency exchange offices (CADECA), higher retail sales and a rise in fixed-term savings deposits in response to attractive rates of interest. Accordingly, M1 dropped by 11.4%, with declines of 12.1% in cash in circulation and 10.1% in regular savings accounts. By contrast, fixed-term deposits expanded considerably (42.9%).

The drive to improve business practices also continued in 2003, extending to some 600 firms, which represent almost 20% of the total and contribute 38% of the output of goods and 40% of profits. The petroleum, nickel and electricity industries are participating in this scheme. The idea is to make more efficient use of financial, material and human resources and, in particular, of foreign exchange, and to give the firms more autonomy in the decentralized management and administration of part of their profits. The sugar industry continued to be restructured, in order to cut production costs and foreign-exchange outlays in response to falling international prices. The government hopes to encourage import substitution and the development of derivatives.

CUBA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.9	1.2	2.6
Consumer prices	-0.5	7.0	5.0[b]
Money (M1)	17.6	10.3	-11.4
Annual average percentages			
Urban unemployment rate	4.1	3.3	3.0
State fiscal balance/GDP	-2.5	-3.2	-3.4
Millions of dollars [c]			
Exports of goods (f.o.b.) and services	4 616	4 238	4 200
Imports of goods (f.o.b.) and services	-5 479	-4 785	-4 485
Current account	-552	-327	-200
Capital and financial account	595	300	270
Overall balance	43	-27	70

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Local-currency markets.
[c] Calculated using the official rate of 1 peso to the dollar.

The number of joint ventures with foreign partners declined to 360, compared to 403 in 2002. By the end of 2003 reciprocal investment promotion and protection agreements had been signed with 63 countries, and double taxation agreements, with a further 11.

Overall supply expanded by 3.2% thanks to an increase in imports of goods and services (7.2%), since output rose by 2.6%. Higher overall demand was due more to external demand, which expanded by 10%, than to domestic demand, which was up by 3.2%. Although gross investment dropped again, this time by 5%, consumption expanded by 3% as a result of higher government spending (6.2%), since private consumption grew only moderately (2%).

Given the lower level of investment, priority was given to energy projects with rapid returns, the completion of approximately 2,000 rooms for international tourists, the modernization and rehabilitation of nickel plants, the electrification of agricultural irrigation systems (in order to save diesel fuel) and social programmes.

Non-sugar production took a turn for the better in 2003. The standouts in this regard were international tourism (13%), commerce, restaurants and hotels (4.8%), government services (4.1%) and financial services (4%). Smaller upturns were recorded in mining (3.4%), electricity, gas and water (3%), and agriculture (2.3%). The downturn in investment brought construction to a standstill (0.7%), while manufacturing dropped by 2% owing to the sugar industry’s poor performance (sugar cane farming, sugar manufacturing and sugar cane products).

Inflation declined from 7% in 2002 to 5% in 2003 thanks to the more ample supply of goods and services, especially from the agricultural sector, and to the smaller amount of money in circulation. The employment situation improved, since the unemployment rate dropped from 3.3% to 3%, but underemployment remained high.

Although services exports were up by 12.8%, mainly in the areas of tourism and telecommunications, the goods and services trade deficit widened by 11% because the rise in the volume of merchandise imports (7%) exceeded that of merchandise exports (6%) and because of a downturn in the terms of trade. On the other hand, a smaller amount of sugar was exported at better prices and a larger quantity of nickel at high prices. Exports of non-traditional goods were also up again, especially in high-value-added categories such as biotechnology, pharmaceuticals and medical and diagnostic equipment.

The capital account recorded an inflow of US$ 400 million, which was enough to finance the current account deficit and to generate a slight increase in international reserves (US$ 57 million). Lastly, the balance of public external debt (US$ 11 billion) increased marginally because of the appreciation of the euro and the yen in relation to the United States dollar, since Cuba’s liabilities are mostly denominated in these currencies.

Guyana

Guyana's economy grew at a modest rate of 1% in 2003, reflecting sluggish performances by most economic sectors and the burden of the country's external debt. Inflation continued to be low, but the fiscal deficit widened considerably. The balance of payments out-turn, meanwhile, was negative. The economic outlook for 2004 is not particularly heartening, in view of Guyana's macroeconomic imbalances and sectoral stagnation.

The central government deficit widened from 5.7% of GDP in 2002 to 13.2% in 2003. This reflected increased spending, which rose from 46% to 50% of GDP, while total revenues and the tax burden remained at 32% and 29% of GDP, respectively, despite the announcement of measures to broaden the tax base and augment receipts by imposing a tax on local telephone calls and raising the withholding tax on interest income from 15% to 20%. Capital revenues, though they represent a small share of the total, expanded by a substantial 100% owing to an increase in subsidies secured under the World Bank and IMF Heavily Indebted Poor Countries (HIPC) Initiative.

The expansion of spending was partly due to capital outlays, which were up from 11% of GDP in 2002 to 16% in 2003. Some of this expansion was attributable to the implementation of investment plans by the State-owned sugar company Guysuco, which was able to secure the necessary financing. This was more than enough to offset the low rate of implementation of investment plans in the public sector. Current expenditure (not including interest payments) also increased, from 26% of GDP in 2002 to 29% in 2003, because of higher spending on wages and salaries and purchases of goods and services. Meanwhile, the value of interest payments dropped as the burden of the government's obligations eased and debt relief was secured under the HIPC Initiative. The fragile fiscal situation worsened, however, as a result of a liquidity squeeze in the non-financial public sector produced by the State oil company Guyoil's payments to creditors and increased spending on materials and supplies by other major State firms.

The central government deficit was covered using domestic resources raised mainly through the issuance of public debt and, to a lesser extent, through the sale of government assets. The non-financial public sector deficit was financed with external resources. As a result, total public debt, domestic and external alike, expanded.

In 2004 the government hopes to narrow the fiscal deficit, since the existing negative balance has prompted serious concerns over the sustainability of the public debt. External debt is likely to increase from US$ 1.4 billion to US$ 1.5 billion.

In 2003 monetary policy was shaped in part by the fiscal situation. As in 2002, there was abundant liquidity in the commercial banking system, due to the sluggish performance of the economy and very restrained demand for credit. In turn, narrow money expanded by 12% between September 2002 and September 2003.

Excess reserves represented 62% of the reserves required at the beginning of the year. Total liquid assets were up from 2002 (4% between September 2002 and September 2003). The liquidity overhang enabled the banking system to hold on to most (60%) of the treasury bills issued by the central bank to finance domestic debt. The stock of treasury bills held by the commercial banking system increased from 24 to 36 billion Guyana dollars.

Strong demand for government securities caused a decline in the corresponding rates of interest. The benchmark rate for 91-day securities dropped from 3.9% in December 2002 to 2.8% in August 2003. Over the same period the bank discount rate came down from 6.3% to 5% and the lending rate for prime borrowers, from 16.3% to 14.9%. The drop in interest rates eased the burden of public debt servicing and helped to stimulate economic activity. In a context of sluggish foreign-exchange activity, the exchange rate increased by 2% during the year.

The modest 1% rate of GDP growth was a reflection of a downturn in mining production and a moderate performance from the agricultural and manufacturing sectors. Agriculture suffered from poor weather conditions, which affected the growth and sucrose content of sugar cane, causing a dip in production. The expansion of agricultural output resulted from an increase in the area sown and good harvest conditions.

GUYANA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	2.3	1.5	1.0
Consumer prices	1.9	6.1	6.0
Wages [b]	5.5	5.0	...
Money (M1)	-0.1	6.3	11.2[c]
Annual average percentages			
Overall central government balance/GDP	-9.2	-5.7	-13.2
Real deposit rate	4.7	-1.7	-2.5[d]
Real lending rate	17.6	16.8	9.9[d]
Millions of dollars			
Current account	-129	-107	-154
Capital and financial account	117	82	90
Overall balance	-12	-25	-64

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Public sector minimum wage.
[c] Variation from September 2002 to September 2003.
[d] September value.

In the mining sector, gold production contracted, diamond output expanded and bauxite production rebounded. The rise in diamond production was due to an increase in concessions, higher productivity and good international prices. Bauxite production rose thanks to technical improvements and the reorganization of production.

Manufacturing saw a negligible upturn in the clothing industry and a slowdown in the non-durables subsector. Construction, meanwhile, was hurt by the low rate of implementation of public investment plans.

The moderate rate of inflation (6%) reflected a combination of higher fuel prices, stable international prices, a steady nominal exchange rate and slight overall economic expansion.

Employment contracted in the public sector as a result of a hiring freeze in the government and cutbacks in employment in State enterprises. The available data show an increase in employment in livestock-raising, transport and communications.

The overall balance of payments position was negative, since the capital account surplus of 12% of GDP was not enough to cover the current account deficit, which rose from 17% of GDP in 2002 to 21% in 2003. It was therefore necessary to use net foreign assets belonging to the Bank of Guyana and part of the aid corresponding to debt reduction under the HIPC Initiative.

The merchandise trade deficit doubled to 17% of GDP owing to the low growth of exports (4%) and the strong expansion of imports (14%) caused by the higher cost of fuel supplies. Sugar exports were hurt by low international prices, while rice exports decreased in both value and volume. By contrast, both the international price and the volume of bauxite exports went up.

The services account turned in a deficit again, since Guyana is a net service importer, especially of shipping and merchandise insurance services. Net factor payments increased owing to the rise in interest on the public sector debt. Lastly, remittances, which represent the bulk of the transfers account, expanded by 12%.

The capital account balance reflected higher outlays, a stable level of non-financial public sector debt servicing (2% of GDP) and a twofold increase in long-term capital from the private sector (up from US$ 44 million in 2002 to US$ 83 million in 2003), in connection with the HIPC Initiative.

Haiti

Haiti's economy grew by a meagre 0.7% in 2003 against the backdrop of a political impasse which moved into its third year. Although this represented a reversal of the contraction recorded in the preceding two years, per capita output slipped again and the country's considerable social lags worsened. A dearth of investment, lack of international financial resources and low levels of productivity helped to perpetuate the vicious circle of poverty. In July the authorities therefore began to prepare a Poverty Reduction Strategy Paper (PRSP) in agreement with IMF and the World Bank, with a view to gaining access to the Poverty Reduction and Growth Facility (PRGF).

The signature in May of an agreement to implement an IMF staff-monitored programme helped Haiti to re-establish relations with the international financial community. This agreement gave priority to controlling and stabilizing inflation, the exchange rate, net international reserves and the fiscal deficit, which had behaved in an alarming manner in the first two quarters of the year. The year's end brought encouraging results, although both the structural and the circumstantial determinants of the Haitian economy's recessionary tendencies persisted.

In the political arena, no sign of a solution to the current problems has yet emerged, and recent events seem to have put the necessary mechanisms for consensus even further out of reach. The conflict between the government authorities, on the one hand, and Democratic Convergence (a coalition of different opposition groups) and the Group of 184, on the other, has become even more bitter in recent months. The antagonistic stances of the different sides are such that the country's affairs still appear unlikely to return to normal.

For this reason, the outlook for 2004 is shrouded in uncertainty. The projections are cautious (GDP growth of between 1% and 3%) and depend to a large extent on the political situation, full resumption of external cooperation flows and greater macroeconomic stabilization.

Despite the limited room for manoeuvre imposed by the unstable socio-political environment, the authorities were forced to implement a set of compensatory and stabilization measures to deal with the shortage of external financing and the severe fiscal, inflationary and exchange-rate imbalances the economy has suffered since the last quarter of 2002.

With regard to public finances, administrative and tax measures were geared to broadening the tax base. In particular, the government stepped up its scrutiny of both taxpayer compliance, by intensifying verification and follow-up procedures, and customs inspection, hiring a Swiss company for pre-shipment inspection of imports. In addition, new sectors were incorporated into the tax base, exemptions were reduced (especially for non-governmental organizations) and certain duties and tariffs were restructured (especially on hydrocarbons). Tax revenues were also boosted (by 3.6% in real terms) through a change in the tax regime for tobacco and alcoholic beverages (from specific to ad valorem rates), a rise in verification fees (from 4% to 5%), the unification at 2% of advances on imports (against income tax) and an increase in utility rates (electricity, water and telephone).

On the expenditure side, the government made a systematic effort to reduce current expenditure (by 1.7%) following the signature of the IMF staff-monitored programme. Investment expenditure rose by 30% in real terms, however, largely because of infrastructure work associated with the 2004 celebration of the bicentenary of Haiti's independence and the construction of low-income housing. In real terms, total outlays expanded by 4% (compared to 11% in 2002), while the fiscal deficit increased again.

The Banque de la République d'Haïti (BRH) returned to a very tight monetary policy in the second

HAITI: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-0.6	-0.5	0.7
Consumer prices	8.1	14.8	42.5[b]
Terms of trade	1.2	-1.0	-2.0
Annual average percentages			
Central government fiscal balance/GDP [c]	-2.7	-3.1	-4.0
Real deposit rate	5.1	-5.6	-17.3[d]
Real lending rate	19.0	9.6	-5.0[d]
Millions of dollars			
Exports of goods and services	445	421	452
Imports of goods and services	1 300	1 232	1 379
Current account	-97	-49	-56
Capital and financial account	94	-32	52
Overall balance	-2	-80	-4

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between September 2002 and September 2003.
[c] Overall balance calculated above the line.
[d] Average for October 2002 to September 2003, annualized.

quarter in order to contain the inflationary pressures that had been in evidence since the fourth quarter of 2002, mainly because of rises in hydrocarbon prices. To that end, BRH instituted a vigorous campaign to soak up liquidity (M3) in the economy (-2.4%) by means of a series of hikes in the interest rates on BRH bonds (27.8% since March), which translated into a decline in both public and private credit (-15% and -7%, respectively). Bank deposit and lending rates were negative, and the latter dampened the credit supply in the financial system. This resulted in the increased dollarization of assets (dollar deposits represented 42% of M3), despite small yields (between 2.5% and 3.5% in nominal terms).

BRH maintained a flexible exchange-rate policy in a context of severe devaluation (49%) of the local currency and low levels of reserves. The gourde came under strong pressure between November 2002 and February 2003. This was offset later in 2003, but had a considerable impact on inflation and eroded the population’s purchasing power.

The main productive sectors performed modestly. Agriculture posted a slight upturn of 2% after its steep fall in 2002, thanks to good weather conditions, while most of the other sectors tended to stand still. The unstable political environment and the repercussions of inflation and devaluation were partly to blame. The manufacturing sector failed to emulate the growth of the maquila industry (27%), while construction (2.3%) benefited from infrastructure and social projects undertaken by the public sector.

Despite an increase in both exports (12.4%) and imports (7.5%), domestic demand displayed no more than moderate growth. The business sector’s continued lack of confidence and the shortage of external resources hurt investment, while the downturn in the living conditions of large sectors of the population –despite a 51% jump in the real minimum wage– sharpened, forcing the government to embark on the preparation of a PRSP.

A steep rise (130%) in the domestic prices of hydrocarbon derivatives during January and February made it possible to reduce public subsidies and improve fiscal revenues. It also triggered a severe bout of inflation (42.5% from September to September), however, which was further fuelled by a rapid rise in the dollar exchange rate (49.5%).

Except for the resumption of external financing from IDB in July 2003, the international financial institutions maintained their freeze on cooperation with Haiti. In the specific case of the World Bank, payment arrears, which amount to US$ 31 million, are holding up new disbursements.

Given the Haitian economy’s fragile macroeconomic situation in 2003, remittances (US$ 744 million) were of substantial help in softening the harmful impact of inflation on consumption, and offered a relatively stable source of foreign exchange at a time of scarce external funding and net outflows of capital (US$ 59 million). Net international reserves are still minimal (representing just over a month’s worth of imports), leaving Haiti highly vulnerable in the event of fresh domestic or external crises.

Jamaica

The Jamaican economy grew very moderately in 2003 (1%), driven by a 4% expansion in exports. The central government recorded a deficit of 7.7% of GDP in fiscal year 2002/2003,[3] which was considerably higher than its target figure of 4.4%. The failure to meet this objective triggered a depreciation of the Jamaican dollar, which, in turn, pushed inflation up to more than 15%. The merchandise trade deficit and the balance-of-payments current account deficit also widened, owing mainly to less favourable terms of trade. In order to restore investor confidence, the authorities intervened in the foreign exchange market, announced a strict fiscal discipline policy and implemented a tight monetary policy.

The central government deficit in fiscal year 2002/2003 was the product of an increase in current expenditure (20%), specifically on public programmes, salaries and wages and interest payments. This last item rose by 22% and came to account for 44% of current expenditure as a result of devaluation, which raised the local-currency value of domestic debt denominated in United States dollars, and restrictive monetary measures, which exerted upward pressure on the interest rate.

For fiscal year 2003/2004 the fiscal deficit is expected to stand at 5.5% of GDP, with a 25% increase in income and a 15% increase in expenditure. The debt-to-GDP ratio (151% of GDP in March 2003) is reaching unsustainable levels, swallowing up a significant portion of available resources and hampering the authorities' efforts to boost development. The government plans to increase tax revenue through a series of measures such as expansion of the tax base, tax rate increases and new taxes. In the first seven months of 2003/2004 the fiscal deficit exceeded the target level, since fiscal revenues were lower than expected. This, in turn, was due to economic stagnation and delays in the implementation of the measures announced.

The currency started to depreciate after the authorities announced in December 2002 that the budget deficit would reach 8% of GDP, almost double the amount expected. The exchange rate rose by 20% between January and May, with an increase of almost 7% in May alone. The monetary authorities adopted a contractionary stance to deal with this volatility. They used three mechanisms to control instability on the foreign exchange market: international reserves, open-market operations and temporary direct controls. Specifically, they drew on resources from the issuance of a United States dollar-indexed bond for exchange-rate intervention. In addition, the authorities raised interest rates in the early months of the year.

Starting in June the rate of exchange settled at approximately J$ 59 per United States dollar. This greater stability enabled the authorities to cautiously lower interest rates in the second half of the year, especially on longer-term instruments. Intervention in the foreign exchange market in the course of the year eroded net international reserves and had a contractionary effect on the monetary base (8.8% between December 2002 and September 2003). Narrow money followed a similar trend, diminishing by 0.8% between September 2002 and September 2003.

GDP growth was positive (1%) in 2003, thanks to the recovery of the agricultural sector. The remaining sectors expanded at rates similar to those of 2002. The robust performance of agriculture (4.2%) was attributable to good weather conditions, which enabled the sector to bounce back from the losses caused by flooding in May and September 2002, although export agriculture was adversely affected by low levels of sugar-cane replanting and by the delay in starting this activity.

As in previous years, manufacturing contracted (by 1.7%), owing to the slump in sugar output and to technical difficulties that cut production in one of the

3 Jamaica's fiscal year runs from April to March.

JAMAICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.8	0.9	1.0
Consumer prices	8.8	7.3	14.1[b]
Wages[c]	8.1	8.0	...
Money (M1)	-2.3	12.5	14.7[d]
Real effective exchange rate	-3.6	3.6	12.8
Annual average percentages			
Urban unemployment rate[e]	15.0	15.1	14.7
Central government primary balance/GDP	5.3	7.9	...
Real deposit rate	10.1	8.9	-2.6[f]
Real lending rate	19.5	18.3	12.3[f]
Millions of dollars			
Current account	-757	-1 117	-1 146
Capital and financial account	1 629	874	608
Overall balance	871	-244	-538

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between October 2002 and October 2003.
[c] Weekly average of employee wages in 1990 Jamaican dollars.
[d] Variation between August 2002 and August 2003.
[e] Includes hidden unemployment.
[f] September.

country's assembly plants. Mining expanded by 4.9% as output increased and alumina refineries operated closer to capacity (over 95% on average for the year). Construction edged up by only 0.8% owing to cutbacks in public investment and the completion of infrastructure projects. Transport, storage and communications recorded 3.7% growth, reflecting heavier cargo traffic, an increase in tourist arrivals and in the number of vessels calling at Jamaican ports and the expansion of mobile telephone services, which were boosted by competition in the communications subsector. Tourism was up by 6% as a result of the above-mentioned increase in arrivals (more than 5%), which attests to this sector's gradual comeback after the events of 11 September 2001.

Inflation is estimated to have risen to over 15% in 2003. The contributing factors were devaluation, the increase in the tax base due to the elimination of exemptions for numerous products, fuel and transport price hikes in the third quarter and an 11% adjustment of the minimum wage in November. Unemployment declined slightly to 14.7%, reflecting the modest increase in the level of economic activity.

The balance-of-payments current account deficit widened from 11.8% of GDP in 2002 to 13% in 2003, as the surpluses on non-factor services and current transfers were not enough to offset the merchandise trade and income account deficits. The merchandise trade deficit, equivalent to 24% of GDP, reflected the moderate growth of exports (4%) and the significant increase in imports (10%). External sales, in turn, owed their expansion to the agricultural sector's emergence from the serious losses it had sustained as a result of flooding in 2002 and the continued encroachment of mining activities. Import growth, meanwhile, was spurred by increased demand for raw materials. The services balance reflected the gradual revival of tourism and, in particular, the resurgence in passenger arrivals. The negative result on the income account reflected an increase in profit repatriation and interest payments on the external debt. Transfers from private sources stayed at the previous year's level. The bigger surplus on the capital and financial account (21% over its 2002 level) was due to a combination of net official capital outflows and foreign direct investment inflows to the service and mining sectors.

Dominican Republic

The 1.3% contraction of economic activity in the Dominican Republic in 2003 brought about a 2.9% reduction in per capita GDP; a result this poor had not been posted in more than a decade. The banking crisis that broke out in the second quarter of the year triggered a strong wave of uncertainty and lack of confidence, which resulted in increased dollarization and considerable capital flight. Pressures on the foreign-exchange market caused a devaluation of the peso and triggered an across-the-board increase in prices, which reached 40.1% in November. In order to limit the damage to the financial system, the authorities injected vast amounts of resources into banks that were suffering from such problems. The costs to the government were huge, at a time when the fiscal and monetary restrictions in force since the end of 2002 were further tightened. Although investment and consumer spending dropped by 12.1% and 9.8%, respectively, the increase in remittances and the sustained recovery of goods and services exports prevented the economic downturn from worsening. Despite the reversal in the balance-of-payments current account, which posted a massive surplus, the year closed with a very low level of international reserves.

In 2004 the government will seek congressional approval of a fiscal reform, and fiscal and monetary restrictions will continue. The standby arrangement signed with IMF provided for US$ 600 million in financial support over two years, of which US$ 120 million had already been paid out. Further payments were postponed pending an assessment of the fiscal impact of the government's repurchase of two electric power distributors. The standby arrangement also includes a set of measures aimed at restoring confidence in the banking system, reinforcing supervision and prudential regulation, strengthening public finances and monetary discipline and establishing a flexible exchange-rate system. For 2003 the arrangement assumed a 3% fall in GDP, 35% inflation, a current account surplus of 1% of GDP and a fiscal deficit of 3.5% of GDP. In addition, the fiscal deficit is expected to drop to 2.5% of GDP in 2004 and 1% in 2005, owing to the sale of public assets.

The intervention, rehabilitation and subsequent sale of the three banks affected by the crisis involved shoring up the system to an extraordinary extent (13% of GDP). The authorities therefore substantially increased the issuance of certificates to neutralize the monetary impact. As a result, gross public debt rose to 47.9% of GDP [4] and the quasi-fiscal deficit shot up to 2.8% of GDP. Credit limits were also established and the legal reserve requirement was raised from 17% to 20% for local-currency deposits, from 12% to 20% for foreign-currency deposits and from 10% to 15% for non-bank institutions. By September cash in circulation had fallen by almost 10%, but broad money had climbed by 13.7%, both in real terms. Also by September, deposit rates in universal banks had reached 21.61%, which was 2.18 percentage points higher than in December. Lending rates were up by 4.1 percentage points, to 32.74%. The interest-rate spread widened by 192 basis points and credit to the private sector expanded by around 7% in real terms.[5]

4 This figure was 20.9% of GDP in 2002.

5 Because of changes in the methodology used for calculating monetary and financial statistics and in their coverage, the figures for 2002 and 2003 are not strictly comparable. The rates of variation included in the text are therefore merely indicative.

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT

Source: ECLAC, on the basis of official figures.
[a] Yearly average.

A floating exchange-rate system, subject to intervention to prevent excessive fluctuations, was adopted. The foreign exchange market was unified as official operations were transferred to the private market.

The public-sector deficit, of about 3.5% of GDP, was the result of the central bank's large quasi-fiscal deficit and a smaller central government deficit (0.4%). The sharp fall in domestic demand prompted a real reduction in government revenues (from 16.9% of GDP to 15.2%) from both direct and, especially, indirect taxes, despite the various temporary measures adopted to boost receipts. These included a 2% surcharge on imports, a 5% tax on exports (which was abolished and replaced with an increase in the currency exchange commission from 4.75% to 10%), a cheque-cashing fee of 0.15% of the cheque's value and a 100% increase in the airport departure tax. Electricity rates were adjusted (while maintaining subsidies for small-scale consumers) to solve financial problems in the sector that resulted in service rationing. There was a sharp cutback in public expenditure (from 18.8% to 16% of GDP), in terms of both current and capital expenditure. The only outlays that rose significantly were debt interest payments. Given its commitment to the sustainability of public finances, the government gave priority to reducing liabilities.

Currency depreciation and the resulting increase in consumer prices had significant effects on consumption and investment. Only the increase in family remittances and the recovery of external demand mitigated the extreme recessionary pressures exerted by a tight economic policy.

The production sectors that contracted the most included construction (8.1%), commerce (13.1%), transport (7.7%), electricity (6.6%) and finance (4.3%). Agricultural output dropped by 3.9% and was further impaired by serious flooding at the end of the year. Manufacturing fell by 3.2%, despite a slight improvement in the sugar sector and free trade zones. The sectors that recorded growth included telecommunications (10.7%), government services (3.7%) and other miscellaneous services (1.9%). Mining expanded by 11.4% on the strength of increased exports, while tourism revitalized the hotels, bars and restaurants segment (36.4%).

In November the inflation index was 40.1%, the highest level in 12 years. Food and transport prices rose considerably, while the increases in prices for health care, entertainment and culture, hotels and restaurants and other miscellaneous services were close to the average. Clothing and footwear prices rose much more slowly, as did housing and education prices.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual rates of variation			
Gross domestic product	3.0	4.3	-1.3
Consumer prices	4.4	10.5	40.1[b]
Money (M1)	7.3	13.9	32.3
Real effective exchange rate [c]	-0.4	13.2	29.6[d]
Terms of trade	1.5	-0.6	-0.5
Annual average percentages			
Urban unemployment rate [e]	15.4	16.1	16.4[f]
Central government fiscal balance/GDP	-1.9	-2.2	-0.4
Real deposit rate	11.6	5.7	-8.0[g]
Real lending rate	15.4	10.1	-2.4[g]
Millions of dollars			
Exports of goods and services	8 387	8 238	9 060
Imports of goods and services	10 063	10 166	9 460
Current account	-741	-875	850
Capital and financial account	1 256	322	-1 000
Overall balance	515	-553	-150

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation from October 2002 to October 2003.
[c] A negative rate signifies an appreciation of the currency in real terms .
[d] Variation from December 2002 to October 2003.
[e] Includes hidden unemployment.
[f] April.
[g] Average from November 2002 to October 2003, annualized.

Wage adjustments were varied, but purchasing power fell in real terms. Public employees received a pay rise in January, and private-sector wages increased by 25% in nominal terms (15% in October 2003 and 10% in January 2004). Varying increases were negotiated in free-zone firms. The economic crisis was reflected in labour market indicators. April's labour survey showed a decline in the participation rate (from 55.1% to 53.9%) and a one-point drop in employment (45.1%). The movement of workers from the formal to the informal sector meant that unemployment was only 16.4%.

The current account posted an unprecedented surplus equivalent to 5.8% of GDP owing to the reduction of the trade deficit, a larger surplus on the services balance and a steady increase in remittances. However, the year closed with a minimum level of international reserves because of the persistent outflow of private capital.

The value of exports in current dollars was up by 7%. Exports by domestic companies climbed by 18.8%, whereas the performance of free trade zones was modest (4.6%). Tourism revenues shot up and increased the recurrent surplus on the services account. The shrinking of domestic demand brought about an overall reduction in imports (10.3%). By the third quarter, imports of consumer and capital goods had plunged by 59% and 28%, respectively. Upswings were posted only in certain categories of intermediate goods, such as fuels (31%), wheat (21%) and maize (32%).

Inflows of foreign direct investment slipped by 13.4%. Even though the country received US$ 600 million from the sovereign bond issue, the overall balance was negative and was financed with reserve assets and the use of IMF credit.

Suriname

Economic activity in Suriname grew by 3.5% in 2003. Inflation remained high, though without reaching its 2002 rate, while external trade ran a large deficit and government accounts posted a narrower shortfall. This last factor, together with a tight monetary policy, helped to stem the devaluation of the local currency.

Following a significant increase in the fiscal deficit in 2002 (11%) and the prospect of a further deterioration due to the implementation of the third and fourth phases of the Caribbean Community's common external tariff (January 2003), the authorities adopted a series of measures –including changes to income and sales taxes– designed to close the fiscal gap. Sales tax rates were raised from 5% to 8% for services and from 7% to 10% for goods with effect from December 2002. These measures are expected to reduce the budget deficit by increasing fiscal revenue by 100 billion guilders. Both direct and indirect tax receipts were noticeably higher in the first three months of 2003, expanding by 81% and 16%, respectively.

Thanks to these measures and to prudent expenditure management (despite a wage increase in the electricity sector), the authorities turned the budget position around from a deficit in 2002 to a surplus (1% of GDP) in the first eight months of 2003. For the year as a whole, a deficit equivalent to 3% to 4% of GDP is expected, which will be financed from external sources. The amount of the external debt will continue to represent approximately 33% of GDP. The government is also seeking to improve tax collection and tax administration in order to consolidate the increases in fiscal revenues.

Monetary policy took a contractionary stance to curb the depreciation of the local currency, which became a serious cause of concern in August 2002. The central bank followed a strategy based on both quantitative controls and management of the monetary base. The base's 12-month expansion, which amounted

SURINAME: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	1.3	1.2	3.5
Consumer prices	38.6	28.0	20.0[b]
Money (M1)	42.8	42.7	30.6
Annual average percentages			
NFPS Fiscal balance/GDP	-1.4	-10.9	...
Real deposit rate	5.9	-15.5	...
Real lending rate	17.7	-5.1	...
Millions of dollars			
Exports of goods (f.o.b.) and services	496	568	577
Imports of goods (f.o.b.) and services	472	643	763
Current account	-84	- 102	- 216
Capital and financial account	161	100	225
Overall balance	77	2	9

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Annual average.

to 32% in December 2002, became a 2% decline in August 2003. At the same time the central bank imposed a 17.5% reserve requirement on foreign currency deposits in order to reduce the incentive for currency replacement and thus prevent the exchange rate from rising further.

These measures succeeded, since they stabilized the guilder, and the price of foreign currency on the parallel market declined and tended to converge with the official rate, which is the rate used for debt service payments and selected imports, notably fuel. Towards the end of 2003 the official exchange rate stood at 2,650 guilders to the dollar, while the parallel market rate was 2,800 guilders. In addition, in order to build confidence among consumers and investors, the government announced the introduction of a new currency in January 2004, the Surinamese dollar, whose unit value will be equal to 1,000 guilders.

Economic activity expanded by 3.5% in 2003. Agricultural production suffered as a result of poor weather conditions, low international prices for some of the major agricultural exports and stronger competition from other producers with lower costs. Mining benefited from an increase in capacity and from the advent of new investment projects, including a bauxite mining and alumina production project to be conducted by a United States/Australian partnership and the development of a new gold mine by a Canadian company. The latter project involves a US$ 100 million investment and will have a positive impact on the construction sector.

The authorities' contractionary monetary policy, along with stable international prices and a stronger local currency, drove inflation down from 28% in 2002 to 20% in 2003.

Apart from a wage hike for workers in the electricity sector (19%), the government, intent on pursuing the rehabilitation of public finances and improving macroeconomic management, did not concede any nominal wage increases in 2003, and trusts that the level of real wages will not change in 2004.

The overall balance of payments out-turn was positive, while the current account deficit (US$ 216 million) was more than offset by the capital and financial account surplus (US$ 225 million). This made it possible to increase the level of international reserves.

The current account deficit swelled from 10% of GDP in 2002 to 20% in 2003 owing to the sharp increase in merchandise imports (19%). This import buoyancy is due to the above-mentioned investment projects in the mining sector.

The capital account posted a positive balance of US$ 22 million thanks to grants. The financial account surplus (US$ 203 million) was due to foreign direct investment flows (US$ 116 million), non-financial public sector outlays (US$ 41 million), private sector loans (US$ 46 million) and short-term flows (US$ 36 million).

The current account deficit may shrink in 2004 if the performance of merchandise exports improves. Meanwhile, the growth of imports will depend on the expansion of economic activity and the execution of new foreign direct investment projects.

Trinidad and Tobago

The economy of Trinidad and Tobago expanded in 2003 and this trend is expected to continue in 2004, driven by a dynamic energy sector. Increased fiscal revenues from hydrocarbons-related production sectors will sustain higher public spending in 2004. The non-energy sector of the economy failed to rally, however, and the employment situation recorded no significant improvements, despite the high rate of economic growth. Monetary policy was expansionary, geared towards stimulating demand. The large volume of hydrocarbons exports helped to narrow the balance of payments deficit. The local currency, meanwhile, continued to appreciate in real terms.

In fiscal year 2002/2003 the central government recorded a surplus of 0.8% of GDP, which was in excess of projections. This was due largely to an increase in tax receipts in the wake of the rise in international oil prices, in contrast to the poor performance of receipts not related to the hydrocarbons sector (particularly VAT). Public spending was driven by expanded current expenditure. Capital expenditure was affected by a slowdown in the rate of implementation of public investment programmes.

The budget for fiscal year 2003/2004 is based on a growth rate of 5.5% of GDP, a 3% inflation rate and an average oil price of US$ 25 per barrel, and it allows for a deficit of 1% of GDP. Tax receipts should reflect new fiscal measures, which include the elimination of the bank savings tax, an increase in pensions, larger benefits for the disabled, higher taxes on the gambling industry and a rise in taxes on oil companies whose production exceeds a certain level. Spending will also expand, thanks to the government's comprehensive development strategy to 2020, which targets spending on education, health and infrastructure –key areas that need to be improved in order to stimulate economic development.

In 2004 the government plans to reduce its debt, which stands at 53% of GDP and is more or less equally divided between domestic and external liabilities. Debt servicing rose in 2003 under the government's restructuring programme.

Monetary policy remained neutral for most of 2003. From January to August the central bank's repo rate stayed at 5.25% and the prime lending rate, at 11.5%. In September the monetary authorities decided to ease liquidity conditions in order to stimulate aggregate demand and boost the growth of the non-energy sectors of the economy. As a result, the repo and discount rates were lowered by 25 basis points (from 5.25% to 5% and from 7.25% to 7%, respectively), and in October the commercial bank reserve requirement was also reduced, from 18% to 14%. Together, these measures triggered a reduction in lending rates.

The shift in monetary policy reflected the central government's need to strengthen weak demand for credit, as well as its implicit objective of whittling down the public debt.

To refinance its most costly domestic liabilities, the government placed two bond issues, for a total of TT$ 500 million, in the second quarter. Together with the budget surplus, this enabled the central government to increase its deposits at the central bank by 19% between January and September.

Credit demand expanded by only 1% on average over the year, partly because of sluggish activity in some sectors (agriculture and manufacturing) and partly because businesses financed their activities by drawing on their own resources, particularly undistributed profits. The rise in credit in the last two months of the year was a reflection of seasonal factors and rapid growth in the service sector.

The exchange rate came under sporadic pressure in the first half of the year owing to higher demand for foreign exchange as a result of seasonal factors, the need to cover financing gaps and capital transactions. Given the healthy level of international reserves, the authorities were well positioned to intervene in the market and neutralize the gap between foreign exchange supply and demand. The weighted nominal exchange rate of the

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	4.3	3.0	5.5
Consumer prices	3.2	4.2	4.0
Real wages	3.5	7.6	...
Money (M1)	37.0	9.5	5.0
Annual average percentages			
Rate of urban unemployment[b]	10.8	10.4	10.6[c]
NFPS fiscal balance/GDP	5.9	3.4	1.0
Real deposit rate	6.2	2.1	1.5
Real lending rate	7.8	5.2	7.5
Millions of dollars			
Current account	513	-18	399
Capital and financial account	-27	62	63
Overall balance	486	44	462

Source: Statistical appendix.
[a] Preliminary estimates at third quarter.
[b] Includes hidden unemployment.
[c] Estimate based on average for January to June.

Trinidad and Tobago dollar to the United States dollar was 6.2996 in January and 6.2928 in September.

The main driver of the economy in 2003 was the hydrocarbons sector (which grew by 9.5%), whose productive capacity was boosted by an increase in gas production as the international consortium Atlantic LNG brought two new liquefaction plants (Train 2 and Train 3) on stream.

Non-petroleum activity expanded by 5.9%, thanks mainly to the performance of the service sector and, in particular, construction, which was up by 13% thanks to the implementation of the public investment programme.

The other sectors, including manufacturing and agriculture, recorded no growth.

Inflation held steady at around 4% in 2003, thanks to the relative stability of the exchange rate. Core inflation, which does not include food prices, rose by 2%.

In keeping with the strong rate of GDP growth, the rate of unemployment dropped from 11% in 2002 to 10.2% in 2003, despite the job losses caused by the restructuring of the sugar industry. A large number of jobs were created during the year in personal, social and community services, petroleum and gas activity, sugar growing and manufacturing. There were losses, however, in finance, real estate and business services, transport, storage and communications, private construction and the rest of the agricultural sector.

The current account and the capital and financial account posted surpluses of US$ 399 million and US$ 63 million, or the equivalent of 4% and 0.6% of GDP, respectively. This allowed international reserves to build up to US$ 2.385 billion (compared with US$ 1.924 billion in 2002), or 5.6 months' worth of imports.

Goods exports, whose value was US$ 4.621 billion, reflected an increase in shipments of hydrocarbons (representing 62% of the total) and a smaller rise in petrochemical exports (15% of the total). Imports, which totalled US$ 3.911 billion, consisted mainly of raw materials and intermediate goods (55% of the total).

The deficit on the service account in 2003, of US$ 348 million, was the result of a US$ 539-million deficit on the factor services account and a US$ 191-million surplus on the non-factor services account.

The capital and financial account posted a surplus of US$ 63 million. This was smaller than the 2002 figure, since in 2003 capital flows to the energy sector in the form of foreign direct investment were offset by outflows of short-term capital remitted by commercial banks and the private sector, and by regional bond issues.

OECS[6]

The countries members of the Organisation of Eastern Caribbean States (OECS) recorded a slight upturn of 1% in 2003, which was driven by the tourism sector, after two years of declining activity. Inflation stayed very low, but the fiscal accounts took a turn for the worse, since the increase in current spending was not sustained by revenues, even though several OECS countries took steps to strengthen public finances. The balance-of-payments current account deficit also widened, and was not fully covered by foreign capital inflows. Reserves declined as a result, but did not fall below the statutory level of foreign exchange reserves held by the Eastern Caribbean Central Bank, which is set at 60%.

Trade negotiations lie at the centre of the OECS countries' current concerns. In particular, the countries are concerned about the potential impact of the Free Trade Area of the Americas (FTAA) on their economies and about the definition of a negotiating position that reflects the needs and specific features of development in small island States. The OECS countries are also engaged in negotiations with the European Union.

The aggregate fiscal accounts of the OECS countries posted a deficit, reflecting an increase in current and capital expenditure and low growth in current income. The expansion of current expenditure was attributable to wage and salary payments and debt servicing, which has reached considerable levels in some countries. Capital expenditure rose in response to the OECS objectives of broadening the countries' physical infrastructure and sectoral development.

Current income posted a poor performance despite the implementation of tax measures, which consisted of adjustments to customs duties and utility rates and taxes on sales, consumption and travel.

Anguilla, Antigua and Barbuda, Dominica, Montserrat and Saint Kitts and Nevis turned in current account deficits. By contrast, Grenada, Saint Lucia and Saint Vincent and the Grenadines recorded surpluses.

In 2004 the OECS members are expected to make a number of adjustments to alter their fiscal stance, which has been expansionary since 1997 and has not been matched by increases in government resources.

The OECS economies formed a monetary union in 1983. Their monetary unit, the Eastern Caribbean dollar, is linked to the United States dollar at a fixed rate of 2.7. The union's monetary authority, the Eastern Caribbean Central Bank, acts as a virtual currency board, since it is required by its statutes to keep reserves at 60% of its monetary liabilities. The institution has consistently maintained a neutral stance in monetary policy and has not altered any of its key interest rates.

During the year the monetary union increased its foreign exchange assets, while its foreign exchange liabilities remained stable. The positive net external position increased by 39% between January and September 2003, which has helped to strengthen the currency board in a context of heavy borrowing on the part of most of the member countries. The balances returned by commercial banks showed an increase in foreign assets, which are the main determinant of growth in the money supply.

Both narrow and broad money expanded by between 6% and 8%, but domestic credit has risen at a much more sedate pace. This has been reflected in the containment of growth in domestic credit to the government and in the stagnation of credit to the private sector. This has, in turn, contributed to lacklustre growth

6 The analysis refers to the following members of the Organisation of Eastern Caribbean States: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

OECS: MAIN ECONOMIC INDICATORS

	2001	2002	2003[a]
Annual growth rates			
Gross domestic product	-2.1	-0.3	1.0
Consumer prices	2.2	0.6	1.3
Money (M1)	2.8	5.9	10.2[b]
Annual average percentages			
NFPS fiscal balance/GDP	-6.5	-5.8	...
Real deposit rate	2.0	2.7	3.0
Real lending rate	9.0	10.3	10.0
Millions of dollars			
Current account	-407	-481	-576
Capital and financial account	427	566	...
Overall balance	20	85	...

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Variation between September 2002 and September 2003.

in the OECS economies. Bank credit consists mainly of personal loans extended for property purchases.

The performance of the tourism sector (3%) was boosted by an increase in visitors in all categories (stay-over and cruise ship passengers) and in all the main markets. This upturn was attributable to an active advertising campaign by a number of OECS members, an increase in airline services and a gradual return to normality after the events of 11 September 2001. As part of the effort to boost tourism, Dominica lowered its port charges by 34% and Saint Kitts and Nevis and Antigua and Barbuda increased flight frequencies. Antigua and Barbuda is also expanding its hotel capacity and Saint Kitts and Nevis has renovated some of its port and hotel infrastructure. The impact of the tourism sector on other economic activities is particularly visible in commerce (4%).

By contrast, agriculture contracted in most of the OECS economies (-2%), owing to the sector's perennial technical and financial difficulties and to unfavourable external conditions. In addition, in the near future agricultural producers will have to deal with the problems arising from the gradual dismantling of preferential market access. Banana production declined in Saint Lucia and Saint Vincent and the Grenadines because of poor weather conditions and a downturn in international prices. Grenada was an exception to the general trend, however, with an increase in the production of cacao and ground nutmeg thanks to efficiency improvements and rising productivity, despite the pest problems that affected the nutmeg harvest.

As in previous years, manufacturing grew very sluggishly (1%) as a result of low levels of technology, high production costs and lower productivity, which prevented the sector from improving its competitiveness. The sector also faced keener competition in external markets. By contrast, in Dominica, the region's leading producer and exporter of soap and toothpaste, there was a slight upturn.

The performance of construction (2%) reflected the implementation of public and private projects. Private investors concentrated on residential buildings and tourism, while the public sector turned its efforts to the construction and renovation of physical infrastructure.

In 2004 growth will probably continue to be slack in the OECS economies, since the positive effects of the upturn in tourism may be offset by stagnation in agriculture and manufacturing and by the effects of macroeconomic imbalances.

The rate of inflation was 1.3% in 2003. This was slightly higher than the 2002 rate of 0.6%, as a result of increased economic activity, though it was attenuated by international price stability. The higher inflation was also partly due to an increase in airport fees in Anguilla and higher telephone charges in Saint Vincent and the Grenadines.

The balance of payments was negative, since the current account deficit (19% of GDP) was not fully offset by the surplus on the capital and financial account (9% of GDP). The current account position resulted from the poor performance of goods exports and the modest increase in the surplus in non-factor services. The capital and financial account balance reflected inflows of foreign direct investment to the tourism sector and official donations.

The expansion of the merchandise trade deficit (4.5%) was largely attributable to the poor export results. In particular, banana exports were down in the Windward Islands owing to domestic problems, while dips in international prices hurt exports of electrical components from Saint Kitts and Nevis and exports of ground nutmeg (-4%) and mace (-6%) from Grenada.

Non-factor services climbed by 4.7% with respect to 2002, basically because of the upturn in the tourism sector. The balance on the factor services account was negative owing to profit repatriation.

Statistical appendix

Table A - 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
	Annual growth rates									
Gross domestic product [b]	5.2	1.1	3.8	5.1	2.2	0.5	3.7	0.4	-0.4	1.5
Per capita gross domestic product [b]	3.4	-0.6	2.1	3.4	0.6	-1.1	2.1	-1.1	-1.9	0.0
Consumer prices [c]	324.3	25.4	18.2	10.5	9.8	9.4	8.7	6.0	12.1	8.5
	Percentages									
Open urban unemployment [d]	7.7	8.5	9.2	8.8	9.9	10.5	10.0	9.8	10.6	10.7
Total gross external debt/GDP [e]	42.4	43.6	41.5	39.6	44.8	51.1	43.9	44.2	46.5	48.8
Total gross external debt / exports of goods and services	273.0	238.6	225.1	229.6	228.6	211.4	173.7	180.6	184.1	172.1
	Billions of dollars									
Balance of payments										
Current account balance	-51.6	-38.0	-38.9	-64.9	-88.3	-55.4	-46.3	-53.4	-14.0	6.0
Balance on goods account	-12.7	3.3	5.3	-11.9	-34.9	-6.8	3.6	-3.6	23.6	41.1
Exports, fob	188.5	229.5	257.3	286.4	283.3	299.2	358.9	342.8	346.4	371.9
Imports, fob	-201.2	-226.2	-252.1	-298.4	-318.1	-306.0	-355.3	-346.4	-322.8	-330.8
Balance on services account	-15.6	-15.6	-15.5	-19.8	-19.7	-16.2	-17.1	-19.3	-14.5	-13.5
Balance on income account	-36.1	-40.8	-43.2	-48.3	-50.4	-51.6	-53.1	-55.2	-50.8	-54.8
Net current transfers	12.8	15.1	14.5	15.1	16.6	19.2	20.4	24.7	27.7	33.1
Financial and capital account [f]	41.7	29.8	67.7	83.6	70.2	49.8	61.3	36.2	-14.2	3.5
Net foreign direct investment	24.4	25.8	40.3	57.0	60.2	79.0	68.9	70.0	39.2	29.0
Financial capital [g]	17.3	4.0	27.4	26.7	10.0	-29.2	-7.5	-33.9	-53.3	-25.5
Global balance	-9.9	-8.2	28.7	18.7	-18.1	-5.6	15.1	-17.2	-28.1	9.5
Variation in reserve assets [h]	4.5	-23.1	-26.1	-15.8	10.0	6.3	-7.1	0.8	3.3	-31.8
Other financing [i]	5.5	31.3	-2.6	-2.9	8.1	-0.7	-8.0	16.4	24.8	22.3

Source: ECLAC, on the basis of official figures.

[a] Projections.

[b] On the basis of official figures converted into dollars at constant 1995 prices.

[c] Variation from December to December.

[d] Includes an adjustment of Brazil's data to take account of the methodological change made in 2002.

[e] Estimates based on figures in dollars at current prices.

[f] Includes errors and omissions.

[g] Refers to the capital and financial account balances minus net foreign direct investment, plus errors and omissions.

[h] A minus sign (-) indicates an increase in reserve assets.

[i] Includes use of loans and credit from the International Monetary Fund (IMF) and exceptional financing.

Table A - 2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean	**5.2**	**1.1**	**3.8**	**5.1**	**2.2**	**0.5**	**3.7**	**0.4**	**-0.4**	**1.5**
Subtotal: (20 countries)	**5.2**	**1.1**	**3.8**	**5.2**	**2.2**	**0.5**	**3.7**	**0.4**	**-0.4**	**1.5**
Argentina	5.8	-2.9	5.5	8.0	3.8	-3.4	-0.8	-4.4	-10.8	7.3
Bolivia	4.8	4.7	4.5	4.9	5.0	0.3	2.3	1.6	2.7	2.5
Brazil	6.2	4.2	2.5	3.1	0.1	1.0	4.0	1.5	1.9	0.1
Chile	5.0	9.0	6.9	6.7	3.3	-0.5	4.2	3.2	2.1	3.2
Colombia	6.0	4.9	1.9	3.3	0.8	-3.8	2.4	1.4	1.7	3.4
Costa Rica	4.6	3.9	0.8	5.4	8.3	8.0	1.8	1.2	2.9	5.6
Cuba	0.5	2.6	9.1	3.4	0.0	5.7	6.3	2.9	1.2	2.6
Ecuador	3.7	2.1	3.0	5.2	2.2	-5.7	0.9	5.5	3.8	2.0
El Salvador	6.0	6.2	1.8	4.2	3.8	3.4	2.0	1.7	2.1	2.0
Guatemala	4.1	5.0	3.0	4.4	5.1	3.9	3.4	2.6	2.2	2.4
Haiti	-17.6	9.5	5.6	3.2	2.9	2.9	2.0	-0.6	-0.5	0.7
Honduras	-1.9	3.7	3.7	4.9	3.3	-1.5	5.6	2.7	2.4	3.0
Mexico	4.4	-6.1	5.4	6.8	5.1	3.6	6.7	-0.3	0.8	1.2
Nicaragua	3.4	6.0	6.6	4.0	3.1	6.9	4.4	3.1	0.7	2.3
Panama	3.1	1.9	2.7	4.7	4.6	3.5	2.6	0.4	0.8	3.0
Paraguay	3.0	4.5	1.1	2.4	-0.6	-0.1	-0.6	2.4	-2.5	2.5
Peru	12.7	8.6	2.5	6.9	-0.6	0.9	2.7	0.2	4.9	4.0
Dominican Republic	4.7	4.3	7.2	8.2	7.4	8.0	7.3	3.0	4.3	-1.3
Uruguay	7.0	-2.3	5.0	5.4	4.4	-3.4	-1.9	-3.5	-10.7	1.0
Venezuela	-3.0	4.8	0.0	6.9	0.6	-5.5	3.8	3.5	-9.0	-9.5
Subtotal: Caribbean	**3.1**	**2.7**	**2.6**	**2.0**	**2.7**	**4.1**	**4.7**	**2.2**	**1.7**	**3.3**
Antigua and Barbuda	6.2	-4.8	6.0	5.5	5.0	4.9	2.6	1.6	1.7	3.2
Barbados	4.4	1.9	2.5	2.6	4.0	3.0	3.1	-2.2	-0.4	2.5
Belize	1.5	3.7	1.3	4.4	2.0	6.0	10.5	4.7	3.7	4.0
Dominica	1.9	1.2	2.9	2.2	3.1	1.3	1.3	-3.3	-5.8	0.4
Grenada	3.4	3.1	3.0	4.3	7.6	7.5	6.7	-3.4	-1.5	1.0
Guyana	9.4	3.8	7.4	6.8	-2.2	5.0	-2.3	2.3	1.5	1.0
Jamaica	1.6	2.2	-0.1	-1.8	-0.8	0.6	1.0	1.8	0.9	1.0
Saint Kitts and Nevis	5.5	3.2	5.8	7.2	1.1	3.5	5.0	2.0	0.5	1.9
Saint Vincent and the Grenadines	-2.3	7.8	1.2	3.5	5.8	3.6	1.8	0.3	1.0	1.0
Saint Lucia	4.6	2.1	0.8	-0.3	3.0	2.8	0.3	-5.0	1.0	2.0
Suriname	-0.1	0.0	5.3	3.3	2.9	-3.5	-1.2	1.3	1.2	3.5
Trinidad and Tobago	4.2	4.2	4.4	4.0	5.3	7.8	9.2	4.3	3.0	5.5

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

[a] Preliminary figures.

Table A - 3

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean	**3.4**	**-0.6**	**2.1**	**3.4**	**0.6**	**-1.1**	**2.1**	**-1.1**	**-1.9**	**0.0**
Subtotal: (20 countries)	**3.4**	**-0.6**	**2.1**	**3.4**	**0.6**	**-1.1**	**2.1**	**-1.1**	**-1.9**	**0.0**
Argentina	4.4	-4.1	4.1	6.6	2.5	-4.6	-2.1	-5.6	-11.9	6.0
Bolivia	2.4	2.3	2.1	2.4	2.5	-2.1	-0.1	-0.7	0.4	0.2
Brazil	4.7	2.7	1.0	1.6	-1.2	-0.4	2.6	0.2	0.6	-1.2
Chile	3.3	7.2	5.3	5.2	1.9	-1.8	2.8	1.9	0.8	2.0
Colombia	3.9	2.9	0.0	1.4	-1.2	-5.6	0.5	-0.4	-0.1	1.6
Costa Rica	2.1	1.4	-1.6	2.8	5.6	5.3	-0.6	-1.0	0.7	3.5
Cuba	-0.1	2.0	8.6	2.9	-0.5	5.3	5.9	2.5	0.9	2.3
Ecuador	1.4	-0.1	0.9	3.1	0.1	-7.6	-1.0	3.5	1.9	0.2
El Salvador	3.7	4.0	-0.4	2.1	1.6	1.3	0.0	-0.2	0.2	0.1
Guatemala	1.4	2.2	0.3	1.7	2.4	1.1	0.7	0.0	-0.5	-0.2
Haiti	-19.1	7.5	3.7	1.3	1.0	1.0	0.2	-2.4	-2.3	-1.1
Honduras	-4.8	0.7	0.7	2.0	0.4	-4.1	2.8	0.0	-0.2	0.4
Mexico	2.5	-7.8	3.6	5.0	3.4	1.9	5.0	-1.8	-0.7	-0.3
Nicaragua	0.3	2.9	3.5	1.1	0.3	4.0	1.6	0.4	-1.9	-0.4
Panama	1.0	-0.1	0.6	2.6	2.6	1.5	0.6	-1.5	-1.1	1.1
Paraguay	0.3	1.7	-1.6	-0.3	-3.2	-2.6	-3.2	-0.2	-4.9	0.0
Peru	10.7	6.7	0.7	5.0	-2.3	-0.8	1.0	-1.4	3.2	2.4
Dominican Republic	2.9	2.5	5.3	6.3	5.6	6.2	5.5	1.3	2.6	-2.9
Uruguay	6.2	-3.0	4.2	4.6	3.6	-4.1	-2.6	-4.2	-11.4	0.3
Venezuela	-5.2	2.6	-2.1	4.6	-1.5	-7.4	1.7	1.5	-10.7	-11.2
Subtotal: Caribbean	**2.3**	**1.9**	**1.8**	**1.2**	**1.9**	**3.4**	**4.0**	**1.4**	**1.0**	**2.6**
Antigua and Barbuda	4.6	-6.4	4.3	4.0	3.5	3.6	1.4	0.6	0.9	2.6
Barbados	4.0	1.4	2.1	2.2	3.7	2.6	2.8	-2.6	-0.7	2.1
Belize	-1.3	0.9	-1.3	1.8	-0.4	3.5	8.0	2.4	1.5	1.8
Dominica	1.0	0.2	1.9	1.3	2.3	0.5	0.7	-3.8	-6.2	0.1
Grenada	3.9	3.6	3.6	4.9	8.2	8.2	7.3	-2.9	-1.2	1.3
Guyana	9.0	3.4	6.9	6.2	-2.7	4.5	-2.7	1.8	1.1	0.7
Jamaica	0.7	1.2	-1.0	-2.6	-1.6	-0.2	0.1	0.9	0.0	0.1
Saint Kitts and Nevis	3.7	1.7	5.0	7.1	1.6	4.5	6.0	2.8	1.0	2.2
Saint Vincent and the Grenadines	-3.0	7.1	0.5	2.9	5.1	3.0	1.2	-0.2	0.4	0.4
Saint Lucia	3.3	0.9	-0.2	-1.3	2.2	2.0	-0.4	-5.7	0.2	1.2
Suriname	-0.4	-0.4	4.8	2.7	2.2	-4.3	-2.1	0.5	0.4	2.7
Trinidad and Tobago	3.3	3.4	3.7	3.4	4.8	7.4	8.8	3.9	2.6	5.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

[a] Preliminary figures.

Table A - 4

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION

(Percentages of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean	**20.1**	**19.1**	**19.3**	**20.8**	**21.1**	**20.2**	**19.6**	**19.0**	**18.0**	**17.9**
Argentina	20.0	17.9	18.5	20.1	20.7	18.7	17.6	15.5	11.1	13.8
Bolivia	14.3	15.5	16.6	20.2	24.7	20.9	18.6	14.7	15.9	13.2
Brazil	20.0	20.5	20.3	21.5	21.4	21.3	19.8	19.7	18.5	17.1
Chile	22.2	25.2	25.6	26.6	26.2	21.5	22.2	22.1	22.0	21.8
Colombia	23.3	22.4	21.7	20.5	19.1	12.7	12.4	14.0	15.8	16.2
Costa Rica	19.2	19.0	17.3	18.8	21.7	19.3	18.9	19.0	19.9	21.2
Cuba	7.7	8.1	10.1	10.3	10.9	10.8	11.2	10.5	9.8	9.7
Ecuador	19.6	18.8	17.5	17.0	17.3	13.3	14.8	15.7	17.8	17.1
El Salvador	17.6	18.7	16.3	16.9	17.9	17.1	17.5	17.5	17.6	17.9
Guatemala	14.1	14.5	13.7	16.2	18.5	18.8	16.9	16.5	17.0	15.8
Haiti	12.8	26.1	27.6	28.8	27.1	32.6	37.8	37.4	38.0	27.9
Honduras	29.0	24.0	24.6	27.1	29.0	31.3	27.4	24.5	22.6	22.7
Mexico	21.6	16.2	17.9	20.5	21.5	22.3	23.1	21.9	21.3	20.8
Nicaragua	13.3	14.2	14.5	16.6	18.0	23.5	20.1	18.8	20.0	17.3
Panama	24.6	26.0	24.6	24.7	27.3	32.2	29.0	25.7	24.5	28.7
Paraguay	22.4	23.1	22.8	22.0	21.1	20.3	20.3	15.9	14.3	14.3
Peru	21.5	24.1	22.8	24.6	24.4	21.5	19.9	18.3	17.2	17.7
Dominican Republic	18.2	17.9	17.9	19.8	23.8	24.7	24.7	24.6	24.1	20.5
Uruguay	14.0	13.5	14.0	14.5	15.0	14.6	13.0	12.2	9.5	7.6
Venezuela	17.0	16.6	15.3	18.1	17.4	15.4	15.0	16.5	14.1	8.6

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

[a] Preliminary figures.

Table A - 5

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(Percentages of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
1. Domestic saving	19.3	20.4	20.5	20.5	19.2	19.0	20.1	18.5	19.5	19.9
2. Net factor income	-2.3	-2.5	-2.4	-2.4	-2.5	-3.0	-2.7	-2.9	-3.1	-3.4
3. Net transfers	0.8	0.9	0.8	0.8	0.9	1.1	1.1	1.3	1.7	2.0
4. Gross national saving (1+2+3)	17.8	18.8	18.9	18.9	17.5	17.2	18.5	17.0	18.1	18.6
5. External saving [c]	3.5	2.4	2.2	3.5	4.5	3.1	2.4	2.8	0.8	-0.2
6. Gross domestic investment (4+5)	21.3	21.2	21.1	22.4	22.0	20.3	20.8	19.7	18.8	18.4

Source: ECLAC, on the basis of official figures.

[a] On the basis of coefficients for 20 countries, calculated in national currencies and converted into current dollars.

[b] Preliminary figures.

[c] This percentage differs from the figure given for the current account balance (with the sign reversed) in relation to GDP as presented in table A-7. External saving is calculated on the basis of countries' national accounts, using adjusted information from the balance of payments. Another factor is that external saving is the sum (with the sign reversed) of the current account balance and the capital account balance, as the latter is defined in the fifth edition of the International Monetary Fund Balance of Payments Manual.

Table A - 6

LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS

(Millions of dollars)

	Exports of goods (f.o.b.)			Imports of goods (f.o.b.)			Balance on goods			Balance on services		
	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003[d]
Latin America and the Caribbean	**342 824**	**346 416**	**371 929**	**346 433**	**322 777**	**330 785**	**-3 608**	**23 640**	**41 145**	**-19 290**	**-14 450**	**-13 472**
Argentina	26 655	25 709	29 309	19 148	8 470	12 705	7 507	17 239	16 604	-4 021	-1 607	-1 138
Bolivia	1 285	1 310	1 533	1 477	1 532	1 364	-193	-222	169	-267	-281	-316
Brazil	58 223	60 362	72 434	55 572	47 219	48 396	2 651	13 143	24 038	-7 759	-5 038	-5 364
Chile	18 466	18 340	20 541	16 411	15 827	17 884	2 054	2 513	2 657	-918	-957	-815
Colombia	12 772	12 302	13 139	12 269	12 077	13 095	503	225	44	-1 424	-1 458	-1 474
Costa Rica	4 923	5 259	6 051	5 744	6 523	7 086	-821	-1 263	-1 035	729	680	748
Ecuador	4 781	5 192	6 075	5 179	6 196	6 252	-397	-1 004	-177	-523	-566	-619
El Salvador	2 891	3 017	3 208	4 796	4 922	5 405	-1 905	-1 906	-2 197	-303	-194	-198
Guatemala	2 860	2 629	2 789	5 142	5 578	5 712	-2 282	-2 950	-2 923	117	97	89
Haiti	305	274	331	1 055	980	1 116	-750	-706	-785	-106	-105	-142
Honduras	1 943	1 930	2 052	2 807	2 804	3 167	-865	-874	-1 115	-210	-160	-212
Mexico	158 443	160 763	165 103	168 396	168 679	170 366	-9 954	-7 916	-5 262	-3 558	-4 048	-4 118
Nicaragua	723	721	731	1 620	1 636	1 624	-897	-916	-893	-130	-143	-145
Panama	5 992	5 315	4 890	6 689	6 352	5 844	-696	-1 037	-954	899	979	1 097
Paraguay	1 883	1 884	2 109	2 499	2 162	2 362	-615	-278	-254	158	196	172
Peru	7 007	7 647	8 646	7 273	7 440	8 180	-267	207	466	-835	-948	-1 019
Dominican Republic	5 276	5 183	5 494	8 779	8 883	8 261	-3 503	-3 699	-2 766	1 826	1 771	2 366
Uruguay	2 144	1 923	2 173	2 915	1 873	2 023	-771	50	150	324	122	158
Venezuela	26 252	26 656	25 323	18 660	13 622	9 944	7 592	13 034	15 379	-3 290	-2 792	-2 542

Table A-6 (continued)

	Trade balance			Balance on income account			Current transfers			Balance on current account		
	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003[d]
Latin America and the Caribbean	**-22 899**	**9 190**	**27 673**	**-55 155**	**-50 821**	**-54 811**	**24 685**	**27 670**	**33 108**	**-53 368**	**-13 962**	**5 969**
Argentina	3 486	15 633	15 465	-8 095	-6 457	-6 989	180	414	518	-4 429	9 590	8 994
Bolivia	-459	-503	-147	-211	-202	-300	396	369	399	-274	-335	-47
Brazil	-5 108	8 105	18 674	-19 743	-18 190	-18 780	1 638	2 390	2 819	-23 213	-7 695	2 713
Chile	1 136	1 556	1 842	-2 757	-2 536	-2 687	428	426	358	-1 192	-553	-487
Colombia	-921	-1 233	-1 430	-2 593	-2 812	-3 019	2 263	2 406	2 773	-1 251	-1 639	-1 677
Costa Rica	-92	-583	-287	-793	-532	-898	148	169	196	-737	-946	-990
Ecuador	-920	-1 570	-797	-1 269	-1 262	-1 447	1 639	1 654	1 735	-550	-1 178	-508
El Salvador	-2 208	-2 099	-2 395	-266	-287	-317	2 284	2 003	2 095	-190	-384	-617
Guatemala	-2 165	-2 853	-2 834	-84	-298	-411	997	1 959	2 136	-1 253	-1 193	-1 109
Haiti	-856	-811	-927	-9	-14	-13	769	776	885	-97	-49	-56
Honduras	-1 075	-1 034	-1 326	-148	-166	-187	929	957	1 060	-293	-243	-454
Mexico	-13 511	-11 964	-9 381	-13 929	-12 350	-12 892	9 338	10 268	13 873	-18 103	-14 046	-8 400
Nicaragua	-1 027	-1 059	-1 038	-240	-200	-200	336	377	435	-932	-883	-804
Panama	203	-58	143	-602	-284	-526	226	250	253	-174	-92	-130
Paraguay	-457	-83	-81	16	59	25	167	116	115	-275	92	59
Peru	-1 102	-741	-553	-1 123	-1 509	-1 807	1 042	1 043	1 115	-1 184	-1 206	-1 245
Dominican Republic	-1 677	-1 928	-400	-1 092	-1 135	-1 100	2 028	2 188	2 350	-741	-875	850
Uruguay	-447	172	308	-125	10	-350	27	69	74	-545	251	32
Venezuela	4 302	10 242	12 837	-2 092	-2 654	-2 913	-148	-165	-80	2 062	7 423	9 844

Table A - 6 (concluded)

	Balance on capital and financial accounts[a]			Overall balance			Variation in reserve assets [b]			Other financing [c]		
	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003[d]	2001	2002	2003 [d]
Latin America and the Caribbean	**36 168**	**-14 170**	**3 492**	**-17 200**	**-28 132**	**9 460**	**792**	**3 342**	**-31 773**	**16 408**	**24 790**	**22 313**
Argentina	-17 030	-25 208	-16 216	-21 459	-15 618	-7 222	12 084	4 516	-2 900	9 376	11 102	10 122
Bolivia	237	43	8	-37	-293	-39	34	303	-50	4	-10	89
Brazil	19 763	-3 483	991	-3 450	-11 178	3 704	-3 307	-302	-14 800	6 757	11 480	11 096
Chile	596	752	269	-596	199	-218	596	-199	218	0	0	0
Colombia	2 468	1 777	1 388	1 217	138	-289	-1 217	-138	289	0	0	0
Costa Rica	750	1 109	1 025	13	163	35	-13	-163	-35	0	0	0
Ecuador	320	1 050	820	-230	-127	312	106	66	-310	124	62	-2
El Salvador	12	260	883	-178	-124	266	178	124	-266	0	0	0
Guatemala	1 727	1 215	1 489	474	22	380	-474	-22	-380	0	0	0
Haiti	94	-32	52	-2	-80	-4	-5	49	20	7	32	-16
Honduras	293	307	455	0	64	1	-147	-214	-122	148	151	121
Mexico	25 428	21 135	14 400	7 325	7 090	6 000	-7 325	-7 090	-6 000	0	0	0
Nicaragua	665	673	519	-266	-210	-285	114	-71	8	153	281	277
Panama	818	152	111	644	60	-20	-633	-52	26	-11	-8	-7
Paraguay	225	-216	84	-50	-124	144	45	84	-142	5	40	-1
Peru	1 601	1 987	1 546	417	781	300	-448	-832	-333	31	51	33
Dominican Republic	1 256	322	-1 000	515	-553	-150	-519	526	50	4	27	100
Uruguay	847	-4 164	514	302	-3 914	546	-302	2 328	-1 046	0	1 586	500
Venezuela	-3 901	-11 850	-3 844	-1 839	-4 427	6 000	2 028	4 430	-6 000	-189	-3	0

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Includes errors and omissions.
[b] A minus sign (-) indicates an increase in reserve assets.
[c] Includes IMF loans and credit and exceptional financing.
[d] Preliminary figures.

Table A - 7
LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS CURRENT ACCOUNT BALANCE [a]
(Percentages of GDP in current dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**-3.3**	**-2.3**	**-2.2**	**-3.3**	**-4.5**	**-3.2**	**-2.4**	**-2.8**	**-0.9**	**0.4**
Argentina	-4.3	-2.0	-2.5	-4.2	-4.9	-4.2	-3.1	-1.6	9.4	7.6
Bolivia	-1.5	-4.5	-5.5	-7.0	-7.8	-5.9	-5.3	-3.4	-4.3	-0.6
Brazil	-0.2	-2.6	-3.0	-3.8	-4.2	-4.7	-4.0	-4.6	-1.7	0.6
Chile	-3.1	-2.1	-4.1	-4.4	-4.9	0.1	-1.0	-1.7	-0.8	-0.7
Colombia	-4.6	-5.0	-4.9	-5.5	-5.3	0.8	0.7	-1.5	-2.0	-2.2
Costa Rica	-2.3	-3.1	-2.2	-3.7	-3.7	-4.3	-4.4	-4.5	-5.6	-5.6
Ecuador	-4.9	-4.9	0.0	-1.8	-8.6	5.3	5.8	-2.6	-4.8	-1.9
El Salvador	-0.2	-2.8	-1.6	-0.9	-0.8	-1.9	-3.3	-1.4	-2.7	-4.1
Guatemala	-4.8	-3.9	-2.9	-3.6	-5.4	-5.6	-5.4	-6.0	-5.1	-4.5
Haiti	-1.1	-3.2	-4.6	-1.5	-1.0	-1.4	-2.3	-2.8	…	…
Honduras	-10.0	-5.1	-8.2	-3.6	-2.4	-4.4	-4.1	-4.6	-3.7	-6.6
Mexico	-7.0	-0.5	-0.8	-1.9	-3.8	-2.9	-3.1	-2.9	-2.2	-1.4
Nicaragua	-51.2	-42.8	-45.9	-47.1	-39.6	-49.3	-38.0	-36.4	-35.0	-30.9
Panama	0.2	-6.0	-2.5	-5.9	-10.9	-12.0	-6.9	-1.7	-0.9	-1.2
Paraguay	-3.5	-1.0	-3.7	-6.8	-1.9	-2.1	-2.1	-4.0	1.7	1.1
Peru	-6.1	-8.6	-6.6	-5.8	-5.9	-2.9	-2.9	-2.2	-2.1	-2.1
Dominican Republic	-2.7	-1.5	-1.6	-1.1	-2.1	-2.5	-5.2	-3.5	-4.1	4.7
Uruguay	-2.5	-1.1	-1.1	-1.3	-2.1	-2.4	-2.8	-2.9	2.0	0.3
Venezuela	4.3	2.6	12.6	3.9	-4.6	1.8	10.0	1.6	8.1	12.9

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] This percentage differs from the figure (with the sign reversed) given for external saving in table A-5. The current account balance is calculated on the basis of officially circulated balance-of-payments information. Does not include Cuba.
[b] Preliminary figures.

Table A - 8

LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS, FOB [a]

(Annual growth rates)

	Exports			Imports		
	Value	Volume	Unit Value	Value	Volume	Unit Value
1994	16.1	9.0	6.5	18.6	16.7	1.6
1995	21.8	12.4	8.4	12.4	5.0	7.1
1996	12.1	11.7	0.4	11.4	11.9	-0.4
1997	11.3	12.3	-0.9	18.4	21.9	-2.9
1998	-1.1	8.3	-8.7	6.6	10.4	-3.4
1999	5.6	6.8	-1.1	-3.8	-2.4	-1.5
2000	19.9	10.8	8.2	16.1	13.7	2.1
2001	-4.5	1.7	-6.1	-2.5	0.8	-3.2
2002	1.0	1.3	-0.3	-6.8	-7.4	0.7
2003 [b]	7.4	4.4	2.8	2.5	0.9	1.5

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and official agencies.

[a] Includes 17 Spanish-speaking countries, plus Brazil and Haiti.

[b] Preliminary figueres.

Table A - 9

LATIN AMERICA AND THE CARIBBEAN: INDICES OF EXPORTS OF GOODS, FOB

(Indices: 1997 = 100) [a]

	Value			Volume			Unit value		
	2001	2002	2003[b]	2001	2002	2003[b]	2001	2002	2003 [b]
Latin America and the Caribbean	**119.7**	**120.9**	**129.8**	**130.5**	**132.2**	**138.0**	**91.7**	**91.5**	**94.1**
Argentina	100.8	97.3	110.9	114.2	113.6	119.2	88.3	85.7	93.0
Bolivia	110.1	112.3	131.4	126.9	132.1	144.4	86.8	85.0	91.0
Brazil	109.5	113.5	136.2	134.0	146.2	167.9	81.7	77.6	81.1
Chile	103.1	102.4	114.7	130.3	132.0	140.2	79.2	77.6	81.9
Colombia	105.9	102.0	108.9	113.4	112.4	114.9	93.4	90.7	94.8
Costa Rica	116.6	124.6	143.4	137.5	150.6	172.8	84.8	82.7	83.0
Ecuador	89.0	96.7	113.1	95.0	101.1	111.6	93.7	95.6	101.3
El Salvador	118.6	123.8	131.6	136.7	143.8	151.7	86.8	86.1	86.8
Guatemala	109.9	101.0	107.2	129.2	119.4	124.7	85.0	84.6	85.9
Haiti	148.5	133.6	161.1	151.8	136.6	161.8	97.8	97.8	99.6
Honduras	105.2	104.5	111.1	126.1	129.2	138.1	83.4	80.9	80.4
Mexico	143.5	145.6	149.5	147.0	146.2	147.9	97.6	99.6	101.1
Nicaragua	113.5	113.1	114.6	139.1	140.8	142.8	81.6	80.3	80.3
Panama	89.8	79.7	73.3	91.9	81.5	75.4	97.8	97.8	97.3
Paraguay	56.6	56.6	63.4	64.5	64.5	69.4	87.8	87.8	91.3
Peru	102.6	111.9	126.6	146.3	153.9	164.4	70.1	72.8	77.0
Dominican Republic	114.4	112.3	119.1	124.0	121.8	126.0	92.2	92.2	94.5
Uruguay	76.7	68.8	77.8	92.5	83.8	90.5	83.0	82.2	86.0
Venezuela	110.8	112.5	106.8	98.8	94.6	81.0	112.1	118.8	131.9

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] The prices indices used are from 1995; for purposes of analysis, this table uses 1997 as its reference year.

[b] Preliminary figures.

Table A - 10
LATIN AMERICA AND THE CARIBBEAN: INDICES OF IMPORTS OF GOODS, FOB
(Indices: 1997 = 100)

	Value			Volume			Unit value		
	2001	2002	2003[b]	2001	2002	2003[b]	2001	2002	2003[b]
Latin America and the Caribbean	**116.1**	**108.2**	**110.9**	**123.5**	**114.3**	**115.4**	**94.0**	**94.6**	**96.1**
Argentina	67.1	29.7	44.5	75.4	34.0	51.1	88.9	87.1	87.1
Bolivia	89.9	93.2	83.0	99.0	104.3	91.0	90.8	89.4	91.2
Brazil	92.9	78.9	80.9	99.4	86.1	84.9	93.5	91.6	95.3
Chile	85.0	82.0	92.7	88.6	87.2	95.7	96.0	94.0	96.9
Colombia	83.4	82.1	89.1	93.5	93.0	98.3	89.2	88.4	90.6
Costa Rica	121.8	138.2	150.2	134.7	154.5	162.2	90.4	89.5	92.6
Ecuador	106.8	127.8	128.9	116.3	140.0	137.7	91.8	91.3	93.7
El Salvador	134.0	137.5	151.0	131.5	134.9	145.1	101.9	101.9	104.0
Guatemala	145.1	157.5	161.2	149.3	161.2	159.5	97.2	97.7	101.1
Haiti	188.5	175.2	199.4	181.2	166.7	182.6	104.0	105.1	109.2
Honduras	137.7	137.6	155.3	145.4	145.2	160.3	94.7	94.7	96.9
Mexico	153.4	153.6	155.1	162.1	160.0	160.7	94.6	96.0	96.5
Nicaragua	118.2	119.4	118.5	122.5	123.7	118.6	96.5	96.5	99.9
Panama	90.9	86.4	79.5	90.2	84.8	76.8	100.8	101.8	103.4
Paraguay	59.6	51.6	56.3	57.2	49.4	51.4	104.2	104.3	109.5
Peru	85.0	87.0	95.6	91.1	92.4	98.2	93.3	94.1	97.4
Dominican Republic	132.8	134.4	125.0	146.2	147.1	132.8	90.9	91.4	94.1
Uruguay	83.3	53.5	57.8	90.7	58.6	61.3	91.9	91.4	94.4
Venezuela	136.4	99.6	72.7	144.7	106.2	76.4	94.3	93.8	95.1

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] The prices indices used are from 1995; for purposes of analysis, this table uses 1997 as its reference year.
[b] Preliminary figures.

Table A - 11
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE (GOODS) FOB/FOB
(Indices: 1997 = 100) [a]

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**96.1**	**97.2**	**98.0**	**100.0**	**94.5**	**94.8**	**100.5**	**97.6**	**96.7**	**97.9**
Oil countries[c]	97.7	94.7	99.9	100.0	92.8	96.8	106.9	103.7	103.6	106.3
Non-oil countries	94.4	101.3	95.4	100.0	97.0	90.7	88.4	86.8	85.1	85.6
Argentina	97.0	91.8	99.6	100.0	95.4	90.4	99.9	99.4	98.3	106.8
Bolivia	88.7	86.5	96.6	100.0	95.1	95.0	96.9	95.6	95.1	99.8
Brazil	88.2	96.4	94.5	100.0	100.0	90.2	87.6	87.4	84.7	85.1
Chile	101.3	120.4	97.2	100.0	88.2	88.6	88.6	82.5	82.5	84.5
Colombia	100.4	95.8	99.4	100.0	91.7	98.3	111.0	104.6	102.7	104.7
Costa Rica	93.3	99.4	94.3	100.0	103.2	102.2	95.2	93.9	92.5	89.6
Ecuador	97.3	89.3	97.9	100.0	89.0	94.9	110.6	102.0	104.7	108.2
El Salvador	86.1	106.2	99.5	100.0	97.5	92.3	87.9	85.2	84.5	83.4
Guatemala	94.8	105.4	92.5	100.0	99.4	91.9	89.3	87.5	86.6	85.0
Haiti	102.1	105.5	95.6	100.0	102.0	100.5	93.0	94.0	93.1	91.2
Honduras	79.8	86.7	80.4	100.0	102.3	95.5	90.0	88.1	85.4	83.0
Mexico	99.3	96.1	98.8	100.0	96.5	98.4	103.2	103.2	103.7	104.7
Nicaragua	113.8	119.3	105.0	100.0	104.2	96.7	92.2	84.5	83.2	80.4
Panama	106.5	96.7	98.0	100.0	99.9	102.4	96.5	97.0	96.0	94.0
Paraguay	105.2	100.1	100.1	100.0	92.5	87.8	84.3	84.2	84.2	83.4
Peru	92.7	96.9	93.5	100.0	86.9	80.7	78.3	75.1	77.3	79.0
Dominican Republic	93.7	98.0	95.8	100.0	101.1	101.9	100.0	101.5	100.9	100.4
Uruguay	98.2	103.8	100.4	100.0	107.0	98.5	89.5	90.4	89.9	91.0
Venezuela	90.2	90.2	104.3	100.0	72.1	96.6	142.0	118.9	126.7	138.7

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] The prices indices used are from 1995; for purposes of analysis, this table uses 1997 as its reference year.
[b] Preliminary figures.
[c] Net oil exporters: Argentina, Colombia, Ecuador, Mexico and Venezuela.

Table A - 12
LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS[a]
(Millions of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**10 999**	**20 322**	**21 844**	**32 430**	**27 882**	**-2 547**	**251**	**-2 579**	**-40 201**	**-29 007**
Argentina	8 147	467	5 252	9 412	10 651	5 755	1 055	-15 749	-20 563	-13 083
Bolivia	-66	243	506	447	638	324	183	30	-169	-203
Brazil	-723	19 951	19 397	5 863	7 257	-1 335	4 076	6 777	-10 193	-6 693
Chile	2 005	-624	1 748	4 374	-164	-3 070	-1 692	-2 161	-1 784	-2 418
Colombia	2 396	2 991	4 417	3 805	2 069	-2 341	-2 054	-125	-1 036	-1 632
Costa Rica	50	312	2	448	-97	-660	-698	-43	577	126
Ecuador	554	-108	-780	-349	371	-2 676	-2 024	-825	-150	-628
El Salvador	37	343	244	297	231	165	132	-253	-27	566
Guatemala	543	256	421	653	1 118	696	1 482	1 642	917	1 078
Haiti	-1	232	79	85	56	80	19	92	-14	22
Honduras	203	65	92	254	150	551	212	293	291	389
Mexico	-994	-1 464	-9 659	5 387	4 944	1 661	6 157	11 498	8 786	1 508
Nicaragua	524	402	610	836	604	1 051	707	577	754	596
Panama	-133	82	249	718	479	652	3	204	-140	-423
Paraguay	727	262	423	478	189	300	-30	246	-117	108
Peru	3 808	3 028	3 553	3 082	1 003	-650	-73	509	529	-229
Dominican Republic	-784	-455	-527	-593	-453	-352	-85	168	-786	-2 000
Uruguay	294	203	185	486	793	254	673	722	-2 569	664
Venezuela	-5 590	-5 864	-4 368	-3 251	-1 956	-2 953	-7 792	-6 182	-14 507	-6 757

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] The net transfer of resources is equal to net capital inflows minus the balance on the income account (net payments of profits and interest). Net capital inflows are equal to the capital and financial account balance plus errors and omissions, IMF loans and credit and exceptional financing. Negative figures indicate net outward resource transfers.

[b] Preliminary figures.

Table A - 13
LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOWS AND NET RESOURCE TRANSFERS
(Billions of dollars and percentage)

	Net capital inflows			Net payments of profits and interest [a]	Net resource transfers	Exports of goods and services	Net resource transfers as a percentage of export of goods and services
	Autonomous[b]	Non-autonomous[c]	Total				
					(5) = (3) - (4)		(7) = (5) / (6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1980	29.2	1.7	30.9	18.9	12.0	106.9	11.3
1981	38.4	1.8	40.1	29.1	11.1	115.6	9.6
1982	3.3	17.2	20.5	38.9	-18.4	105.2	-17.5
1983	-22.1	30.1	8.0	34.5	-26.5	105.4	-25.1
1984	-10.6	23.9	13.3	37.5	-24.2	117.5	-20.6
1985	-16.0	20.3	4.3	35.5	-31.2	112.8	-27.7
1986	-12.1	21.9	9.7	32.7	-22.9	99.2	-23.1
1987	-12.8	25.6	12.8	31.0	-18.2	113.4	-16.0
1988	-19.5	22.8	3.3	34.6	-31.3	130.6	-24.0
1989	-18.6	29.0	10.5	39.0	-28.5	145.8	-19.6
1990	-5.0	21.5	16.6	34.2	-17.6	162.0	-10.9
1991	24.4	11.2	35.5	31.4	4.1	164.3	2.5
1992	48.9	7.7	56.6	30.1	26.5	177.0	15.0
1993	68.5	-2.0	66.5	34.9	31.6	193.6	16.3
1994	41.7	5.5	47.1	36.1	11.0	222.6	4.9
1995	29.8	31.3	61.1	40.8	20.3	265.8	7.6
1996	67.7	-2.6	65.0	43.2	21.8	294.7	7.4
1997	83.6	-2.9	80.7	48.3	32.4	327.0	9.9
1998	70.2	8.1	78.3	50.4	27.9	327.0	8.5
1999	49.8	-0.7	49.1	51.6	-2.5	342.7	-0.7
2000	61.3	-8.0	53.4	53.1	0.3	408.1	0.1
2001	36.2	16.4	52.6	55.2	-2.6	390.6	-0.7
2002	-14.2	24.8	10.6	50.8	-40.2	392.6	-10.2
2003 [d]	3.5	22.3	25.8	54.8	-29.0	421.2	-6.9

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Corresponds to the income account balance.
[b] Corresponds to the capital and financial account balance, plus errors and omissions.
[c] Includes IMF loans and credit and exceptional financing (includes transactions such as debt forgiveness and accumulation of arrears).
[d] Preliminary figures.

Table A - 14

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL INTEREST TO EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**16.9**	**17.2**	**16.2**	**15.7**	**16.5**	**16.4**	**14.5**	**14.7**	**12.7**	**12.0**
Argentina	26.5	27.8	27.8	29.0	34.6	40.8	39.7	39.2	34.8	29.3
Bolivia	14.0	15.1	11.9	14.8	15.1	15.7	14.3	10.4	7.6	9.4
Brazil	17.9	21.9	25.3	26.0	28.1	31.6	26.5	26.4	21.9	21.1
Chile	8.2	7.3	7.2	7.3	8.2	7.7	7.8	7.7	6.1	4.8
Colombia	15.8	15.6	16.2	18.7	19.8	18.0	16.9	17.2	17.7	16.9
Costa Rica	6.4	5.7	4.8	4.6	3.6	3.2	4.1	5.1	4.1	3.8
Ecuador	18.6	16.8	16.1	15.8	21.1	21.5	20.2	17.2	15.9	16.4
El Salvador	6.3	5.9	6.1	8.2	8.0	8.7	8.6	9.4	9.4	10.0
Guatemala	5.9	3.9	5.0	4.6	4.2	3.7	4.7	5.6	5.7	8.4
Haiti	16.7	14.0	5.4	3.6	2.4	2.4	1.8	2.1	3.2	2.9
Honduras	15.5	13.3	11.3	8.8	7.9	8.6	7.5	6.3	5.7	6.2
Mexico	16.6	15.2	13.1	10.9	10.1	9.4	8.3	8.0	7.5	6.9
Nicaragua	99.7	57.3	45.0	28.3	18.4	19.7	17.1	18.8	15.1	14.0
Panama	15.4	22.5	17.0	15.7	19.0	20.6	20.1	17.6	12.5	12.0
Paraguay	2.5	2.1	2.1	2.4	2.0	3.1	5.3	6.1	5.4	5.3
Peru	34.6	33.1	25.2	19.3	23.6	22.8	21.0	19.3	14.7	13.3
Dominican Republic	4.0	4.0	3.3	2.5	2.3	2.2	2.3	2.6	2.3	0.0
Uruguay	14.9	16.5	15.9	16.6	18.0	20.9	20.6	23.7	24.2	20.4
Venezuela	17.0	16.1	11.2	13.8	14.7	12.6	8.6	9.8	8.3	6.1

Source: ECLAC, on the basis of official figures.

[a] Includes interest paid (with no deduction of interest received) and interest due but not paid.

[b] Preliminary figures.

Table A - 15

LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT REMITTANCES TO EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**5.7**	**5.0**	**5.3**	**6.0**	**6.3**	**5.1**	**5.2**	**5.3**	**4.4**	**4.6**
Argentina	10.4	8.6	7.4	8.9	8.9	8.0	8.1	5.4	-1.2	1.5
Bolivia	2.3	3.1	5.4	5.7	6.0	10.9	10.1	11.0	11.7	10.6
Brazil	4.7	5.3	7.6	10.3	10.2	9.3	6.6	7.4	8.5	6.2
Chile	12.9	11.3	10.2	10.1	6.9	7.0	10.6	10.0	9.7	9.0
Colombia	4.6	2.9	4.9	4.0	-0.2	-1.8	4.3	6.0	7.1	6.8
Costa Rica	2.0	2.4	1.8	3.4	5.6	21.0	14.7	8.7	4.9	8.9
Ecuador	3.1	2.8	3.4	3.2	4.6	4.7	4.7	5.8	4.9	5.3
El Salvador	1.6	0.0	0.0	0.0	1.0	3.5	1.6	2.0	1.1	1.0
Guatemala	2.6	3.4	4.6	5.1	3.7	4.3	5.8	4.4	6.0	7.0
Haiti	0.0	2.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Honduras	2.2	2.4	3.5	2.7	2.9	1.9	2.8	3.1	3.5	3.5
Mexico	5.3	3.2	3.9	3.4	4.1	2.4	3.3	3.2	2.0	2.3
Nicaragua	3.6	4.7	7.0	6.7	7.0	7.4	7.3	8.2	7.8	8.2
Panama	3.7	5.2	5.5	6.1	7.8	10.1	7.4	7.3	3.7	8.1
Paraguay	1.0	1.3	1.8	3.8	4.3	3.6	2.9	3.6	-0.1	2.6
Peru	6.6	12.8	9.3	11.1	2.9	0.5	4.4	1.5	5.4	7.3
Dominican Republic	10.7	10.9	9.8	10.1	11.1	12.1	11.9	13.0	13.9	14.3
Uruguay	1.3	1.5	0.9	0.9	1.4	3.8	2.4	5.0	-7.7	3.4
Venezuela	2.9	2.1	1.7	4.1	11.4	3.9	4.1	6.8	6.9	7.2

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Includes reinvested profits.

[b] Preliminary figures.

Table A - 16

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT [a b]

(Millions of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [c]
Latin America and the Caribbean	**24 383**	**25 789**	**40 279**	**56 969**	**60 163**	**79 018**	**68 862**	**70 022**	**39 169**	**29 041**
Argentina [d]	2 622	4 112	5 349	5 508	4 966	22 630	10 654	3 304	1 741	1 103
Bolivia	130	393	474	731	952	983	723	660	654	357
Brazil	2 035	3 475	11 667	18 608	26 002	26 888	30 497	24 715	14 084	7 137
Chile	1 672	2 205	3 681	3 809	3 144	6 203	-348	3 045	1 139	1 164
Colombia	1 298	712	2 784	4 753	2 033	1 336	1 973	2 493	1 171	991
Costa Rica	293	331	421	404	608	614	400	445	628	466
Ecuador	576	452	500	724	870	648	720	1 330	1 275	1 637
El Salvador [e]	0	38	-7	59	1 103	162	178	260	234	139
Guatemala	65	75	77	84	673	155	230	456	110	104
Haiti	0	7	4	4	11	30	13	4	6	7
Honduras	35	50	91	128	99	237	282	195	143	216
Mexico [f]	10 973	9 526	9 185	12 830	11 602	12 476	16 405	26 537	14 435	11 000
Nicaragua	40	75	97	173	184	300	267	150	204	241
Panama	402	223	416	1 299	1 203	864	700	405	78	576
Paraguay	137	98	144	230	336	89	98	77	-26	14
Peru	3 289	2 550	3 487	2 056	1 580	1 811	662	1 070	2 391	958
Dominican Republic	207	414	97	421	700	1 338	953	1 079	961	700
Uruguay	155	157	137	113	155	235	274	319	181	131
Venezuela	455	894	1 676	5 036	3 942	2 018	4 180	3 479	-241	2 100

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] Refers to direct investment in the reporting economy minus direct investment abroad by reporting-economy residents (both excluding disinvestments). Includes reinvested profits.

[b] In accordance with the fifth edition of the IMF Balance of Payments Manual, all transactions between non-financial direct investment enterprises and their parent companies and affiliates are included in direct investment.

[c] Preliminary figures.

[d] In 1999, includes the value of the investment by REPSOL in Yacimientos Petrolíferos Fiscales. Part of this amount corresponds to the purchase of shares in the company held by non-residents. In the balance of payments, the value of those shares is reflected in a debit under portfolio investment.

[e] Figures are not comparable from 1998 on because no official records were kept until 1997.

[f] In 2001, includes the value of the investment made by Citigroup in BANAMEX.

Table A - 17

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**17 931**	**23 071**	**46 915**	**52 003**	**39 511**	**38 707**	**35 615**	**33 579**	**18 250**	**21 207**
Argentina	5 319	6 354	14 070	14 662	15 615	14 183	13 025	1 501	-	-
Brazil	3 998	7 041	11 545	14 940	9 190	8 586	11 382	12 239	6 375	6 790
Chile	155	300	2 020	1 800	1 063	1 764	680	1 536	1 729	2 050
Colombia	955	1 083	1 867	1 000	1 389	1 676	1 547	4 263	1 000	1 035
Costa Rica	50	-	-	-	200	300	250	250	250	450
Ecuador	-	10	-	625	-	-	-	-	-	-
El Salvador	-	-	-	-	-	150	50	354	1 252	350
Grenada	-	-	-	-	-	-	-	-	100	-
Guatemala	-	-	-	150	-	-	-	325	-	300
Jamaica	55	-	-	225	250	-	421	691	300	-
Mexico	6 949	7 646	16 353	15 657	8 444	9 854	7 078	9 232	4 914	6 682
Paraguay [c]	-	-	-	-	-	400	-	-	-	-
Peru	100	-	-	250	150	-	-	-	1 930	750
Dominican Republic	-	-	-	200	-	-	-	500	-	600
Trinidad and Tobago	150	71	150	-	-	230	250	-	-	-
Uruguay	200	211	145	479	550	350	443	1 106	400	-
Venezuela	-	356	765	2 015	2 660	1 215	489	1 583	-	2 200

Source: International Monetary Fund, Research Department, Emerging Markets Studies Division.

[a] Gross issues. Includes medium-term euronotes.

[b] January to September.

[c] Official information.

Table A - 18

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT [a]

(Millions of dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**569 946**	**625 552**	**651 342**	**679 910**	**768 349**	**764 389**	**741 702**	**726 732**	**726 554**	**744 300**
Argentina	85 656	98 547	110 613	125 052	141 929	145 289	146 575	140 273	134 200	140 400
Bolivia [c]	4 216	4 523	4 366	4 234	4 655	4 574	4 461	4 412	4 300	4 700
Brazil	153 572	165 447	186 561	208 375	259 496	241 468	236 156	226 067	227 689	235 000
Chile	21 768	21 736	26 272	29 034	32 591	34 758	37 177	38 538	40 956	42 400
Colombia	21 855	26 340	31 116	34 409	36 681	36 733	36 131	39 039	37 340	37 300
Costa Rica [c]	3 256	3 259	2 859	2 830	2 988	3 171	3 266	3 334	3 338	3 700
Cuba [c]	9 083	10 504	10 465	10 146	11 209	11 078	10 961	10 893	10 900	11 000
Ecuador	14 589	13 934	14 586	15 099	16 400	16 282	13 564	14 411	16 288	16 500
El Salvador [c]	2 056	2 168	2 517	2 689	2 632	2 789	2 831	3 148	3 987	4 600
Guatemala	2 895	2 947	3 026	3 197	3 618	3 831	3 929	4 100	4 290	4 700
Guyana	2 004	2 058	1 537	1 514	1 500	1 196	1 250	1 250	1 200	1 300
Haiti [c]	875	901	914	1 025	1 104	1 162	1 170	1 189	1 212	1 300
Honduras	4 040	4 243	4 121	4 073	4 404	4 729	4 706	4 808	4 964	5 000
Jamaica	3 652	3 452	3 232	3 278	3 306	3 024	3 375	4 146	4 348	4 400
Mexico	139 800	165 600	157 200	149 028	160 258	166 381	148 652	144 534	141 601	140 300
Nicaragua [c]	11 695	10 248	6 094	6 001	6 287	6 549	6 660	6 374	6 363	6 400
Panama [c]	5 505	5 891	5 070	5 051	5 180	5 412	5 604	6 263	6 349	6 500
Paraguay	1 271	1 742	1 801	1 927	2 133	2 697	2 819	2 652	2 700	2 800
Peru	30 191	33 378	33 805	28 642	29 477	28 704	28 150	27 195	27 840	28 700
Dominican Republic	3 946	3 999	3 807	3 572	3 537	3 636	3 682	4 177	4 459	5 000
Trinidad and Tobago	2 064	1 905	1 876	1 565	1 471	1 585	1 680	1 638	1 614	1 700
Uruguay [c]	4 959	5 193	5 387	5 459	6 036	5 618	6 116	5 855	8 328	8 600
Venezuela	40 998	37 537	34 117	33 710	31 457	33 723	32 786	32 437	32 290	32 000

Source: ECLAC, on the basis of official figures.

[a] Includes debt owed to the International Monetary Fund.

[b] Preliminary figures.

[c] External public debt.

Table A - 19

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL GROSS EXTERNAL DEBT TO EXPORTS OF GOODS AND SERVICES

(Percentages)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean	**273**	**239**	**225**	**230**	**229**	**211**	**174**	**181**	**184**	**172**
Argentina	509	444	442	460	468	528	451	435	490	428
Bolivia [b]	383	354	322	329	337	340	300	283	306	251
Brazil	338	354	397	439	409	428	350	337	336	284
Chile	150	136	144	150	171	177	165	181	190	168
Colombia	248	253	262	258	273	258	249	250	263	248
Costa Rica	98	64	59	56	46	40	43	49	51	56
Cuba	...	346	276	255	271	257	229	236	257	262
Ecuador	303	281	269	271	326	259	244	286	267	235
El Salvador [b]	132	123	122	90	92	89	86	111	120	112
Guatemala	131	107	114	113	110	113	106	110	124	118
Guyana	432	415	267	255	274	228	247	255	242	...
Haiti [b]	1,345	475	535	291	242	221	237	273	306	285
Honduras	316	252	212	202	193	210	193	204	202	191
Jamaica	121	102	97	96	98	87	94	124	135	...
Mexico [c]	233	176	140	132	129	100	80	81	79	78
Nicaragua [b]	2,210	996	931	789	789	794	668	672	704	689
Panama [b]	79	67	68	62	66	79	80	79	86	88
Paraguay	46	38	44	54	65	98	91	111	115	101
Peru	590	503	392	352	381	365	316	327	312	278
Dominican Republic	76	66	58	50	49	46	47	53	61	56
Trinidad and Tobago	90	66	63	51	50	46	35	34	36	...
Uruguay [b]	160	154	142	143	135	172	160	254	320	293
Venezuela	212	164	133	125	176	147	93	117	115	124

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Preliminary figures.
[b] External public debt.
[c] Public debt does not include investment by non-residents in government securities.

Table A - 20

LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE PRICE INDICES, IN DOLLARS[a]

(Indices: june 1997 = 100)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [b]
Latin America and the Caribbean	**76.2**	**62.5**	**72.5**	**90.6**	**56.0**	**88.0**	**75.1**	**70.5**	**54.5**	**80.8**
Argentina	63.6	69.1	82.1	96.3	68.9	91.9	68.9	47.7	24.0	44.8
Brazil	64.0	49.8	64.9	78.3	44.9	75.0	68.7	54.1	36.2	59.9
Chile	95.8	93.0	77.0	79.6	55.7	75.4	64.8	61.6	52.5	91.6
Colombia	103.5	77.1	80.5	99.9	56.4	45.1	24.8	31.1	34.1	38.8
Mexico	91.1	66.5	77.3	114.1	69.5	125.4	99.8	112.3	93.7	113.5
Peru	66.8	73.1	73.6	83.8	50.5	61.1	44.1	49.9	65.3	100.9
Venezuela	47.8	32.7	75.7	93.3	44.9	39.3	49.7	37.9	24.6	46.0

Source: ECLAC, on the basis of figures provided by the International Finance Corporation.
[a] Figures at end of year; general index.
[b] Figures up to October.

Table A - 21

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDICES [a b]

(Indices: 2000 =100, deflated by CPI)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [c]
Latin America and the Caribbean[d]	**108.4**	**107.2**	**105.7**	**100.7**	**99.2**	**100.7**	**100.0**	**99.2**	**108.4**	**114.7**
Argentina	106.3	113.1	116.3	114.3	109.9	99.8	100.0	95.9	226.4	209.0
Barbados	101.0	104.3	103.3	99.2	101.8	101.5	100.0	98.8	101.5	104.2
Bolivia	109.0	110.7	105.9	103.7	100.0	99.1	100.0	101.3	99.6	108.1
Brazil	83.6	75.6	72.2	71.1	73.5	108.4	100.0	120.2	132.1	133.9
Chile	106.6	99.8	97.3	91.8	94.5	99.3	100.0	112.4	112.7	120.9
Colombia	90.8	87.5	82.6	77.5	83.1	91.8	100.0	104.3	106.0	120.0
Costa Rica	102.6	100.6	101.1	101.6	100.1	101.8	100.0	97.3	98.9	104.4
Ecuador	66.1	66.6	68.0	66.0	64.9	89.1	100.0	70.7	62.4	60.3
El Salvador	118.6	114.4	106.3	103.8	103.4	101.0	100.0	100.0	100.8	102.4
Guatemala	101.2	98.7	94.8	89.8	88.8	98.9	100.0	96.4	89.3	88.5
Honduras	135.8	124.5	127.3	119.8	109.8	104.7	100.0	97.1	97.6	99.5
Jamaica	149.7	139.6	118.7	103.3	98.9	98.6	100.0	101.6	101.8	117.1
Mexico	102.6	151.6	136.2	118.8	118.7	108.3	100.0	94.1	93.8	103.8
Nicaragua	88.8	95.8	98.0	102.0	102.6	102.9	100.0	101.5	105.5	109.7
Panama	98.7	103.7	104.0	104.0	103.0	101.3	100.0	102.8	103.2	106.3
Paraguay	100.6	101.2	98.7	95.1	102.8	97.6	100.0	102.7	111.1	118.1
Peru	93.3	92.5	91.3	91.3	93.0	101.7	100.0	98.0	97.4	100.1
Dominican Republic	107.3	102.5	99.4	98.8	103.6	104.2	100.0	96.2	98.5	122.9
Trinidad and Tobago	108.7	107.6	105.7	109.6	105.6	102.5	100.0	94.7	91.2	89.9
Uruguay	114.7	110.7	111.5	109.2	107.1	98.5	100.0	101.5	121.6	148.4
Venezuela	191.0	150.1	181.3	143.8	117.3	103.0	100.0	95.1	124.5	140.7

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and official agencies.

[a] The index of the real effective exchange rate is the average of two indices: the real exchange rate index for imports and the corresponding index for exports. Both rates are calculated using the nominal exchange rates for each country's main trading partners. These figures are then deflated by variations in the consumer price index in each country and, lastly, weighted according to the share of total imports and exports accounted for by bilateral trade. The trade pattern for 2001 was used to calculate the indices for 2002 and 2003.

[b] Annual averages.

[c] January-October average.

[d] Simple average.

Table A - 22
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)

		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean		**6.6**	**7.5**	**8.0**	**7.6**	**8.1**	**8.9**	**8.4**	**8.4**	**8.9**	…
Latin America and the Caribbean [b]		7.7	8.5	9.2	8.8	9.9	10.5	10.0	9.8	10.6	10.7
Argentina	Urban areas	11.5	17.5	17.2	14.9	12.9	14.3	15.1	17.4	19.7	15.6 [c]
Barbados [d]	National total	21.9	19.7	15.6	14.5	12.3	10.4	9.2	9.9	10.3	11.7 [e]
Bolivia	Departmental capitals	3.1	3.6	3.8	4.4	6.1	7.2	7.5	8.5	8.7	…
Brazil [f]	Six metropolitan areas	5.1	4.6	5.4	5.7	7.6	7.6	7.1	6.2	11.7	12.4 [g]
Chile	National total	7.8	7.4	6.4	6.1	6.4	9.8	9.2	9.1	9.0	8.5 [g]
Colombia [d]	Thirteen metropolitan areas [h]	8.9	8.8	11.2	12.4	15.3	19.4	17.2	18.2	17.6	16.9 [g]
Costa Rica	Total urban areas	4.3	5.7	6.6	5.9	5.4	6.2	5.3	5.8	6.8	6.7
Cuba	National total	6.7	7.9	7.6	7.0	6.6	6.0	5.5	4.1	3.3	3.0
Ecuador [d]	Total urban areas [i]	7.8	7.7	10.4	9.3	11.5	14.4	14.1	10.4	8.6	9.8 [g]
El Salvador	Total urban areas	7.0	7.0	7.5	7.5	7.6	6.9	6.5	7.0	6.2	6.2 [j]
Guatemala [k]	National total	3.5	3.9	5.2	5.1	3.8	...	...	…	3.1	3.4
Honduras	Total urban areas	4.0	5.6	6.5	5.8	5.2	5.3	...	5.9	6.1	7.7 [c]
Jamaica [d]	National total	15.4	16.2	16.0	16.5	15.5	15.7	15.5	15.0	15.1	14.7
Mexico	Urban areas	3.7	6.2	5.5	3.7	3.2	2.5	2.2	2.5	2.7	3.2 [g]
Nicaragua [k]	National total	17.1	16.9	16.0	14.3	13.2	10.7	9.8	10.7	12.9	…
Panama [d]	Total urban areas [l]	16.0	16.6	16.9	15.5	15.2	14.0	15.2	17.0	16.5	15.6
Paraguay	Total urban areas	4.4	5.3	8.2	7.1	6.6	9.4	10.0	10.8	14.7	…
Peru	Metropolitan Lima	8.8	8.2	8.0	9.2	8.5	9.2	8.5	9.3	9.4	9.3 [g]
Dominican Republic [d]	National total	16.0	15.8	16.5	15.9	14.3	13.8	13.9	15.4	16.1	16.4 [m]
Trinidad and Tobago [d]	National total	18.4	17.2	16.2	15.0	14.2	13.2	12.2	10.8	10.4	10.6 [e]
Uruguay	Total urban areas	9.2	10.3	11.9	11.5	10.1	11.3	13.6	15.3	17.0	16.8 [g]
Venezuela	National total	8.7	10.3	11.8	11.4	11.3	15.0	13.9	13.3	15.8	18.2 [g]

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures.
[b] Includes an adjustment of Brazil's data to take account of the methodological change made in 2002.
[c] May.
[d] Includes hidden unemployment.
[e] January-June average.
[f] New measurement from 2002 (data therefore not comparable with previous series).
[g] Estimate based on January-October average.
[h] Up to 1999, figures include seven metropolitan areas.
[i] From 1999: Quito, Guayaquil and Cuenca.
[j] Estimate based on January-September average.
[k] Official estimates.
[l] Up to 1999, figures correspond to the metropolitan region.
[m] April.

Table A - 23
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(December-December variations)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Latin America and the Caribbean [b]	**324.3**	**25.4**	**18.2**	**10.5**	**9.8**	**9.4**	**8.7**	**6.0**	**12.1**	**9.0**
Argentina	3.9	1.6	0.1	0.3	0.7	-1.8	-0.7	-1.5	41.0	3.6
Barbados	1.4	2.8	1.8	3.6	1.7	2.9	3.8	-1.2	1.0	1.7 [c]
Bolivia	8.5	12.6	7.9	6.7	4.4	3.1	3.4	0.9	2.4	3.3
Brazil	916.4	22.4	9.6	5.2	1.7	8.9	6.0	7.7	12.5	11.0
Chile	8.9	8.2	6.6	6.0	4.7	2.3	4.5	2.6	2.8	1.0
Colombia	22.6	19.5	21.6	17.7	16.7	9.2	8.8	7.6	7.0	6.1
Costa Rica	19.9	22.6	13.9	11.2	12.4	10.1	10.2	11.0	9.7	9.3
Cuba	...	...	...	1.9	2.9	-2.9	-3.0	-0.5	7.0	5.0
Ecuador	25.3	22.8	25.6	30.7	43.4	60.7	91.0	22.4	9.4	6.5
El Salvador	8.9	11.4	7.4	1.9	4.2	-1.0	4.3	1.4	2.8	2.6
Guatemala	11.6	8.6	10.9	7.1	7.5	4.9	5.1	8.9	6.3	5.8 [d]
Haiti	32.2	24.8	14.5	15.7	7.4	9.7	19.0	8.1	14.8	42.5 [e]
Honduras	29.1	26.9	25.2	12.7	15.7	11.0	10.1	8.8	8.1	7.2
Jamaica	26.9	25.5	15.8	9.2	7.9	6.8	6.1	8.7	7.3	14.1 [e]
Mexico	7.1	52.0	27.7	15.7	18.6	12.3	9.0	4.4	5.7	4.0
Nicaragua	12.4	10.9	12.1	7.3	18.5	7.2	9.9	4.8	3.9	5.3 [d]
Panama	1.4	0.8	2.3	-0.5	1.4	1.5	0.7	-0.1	1.9	1.3 [e]
Paraguay	18.3	10.5	8.2	6.2	14.6	5.4	8.6	8.4	14.6	9.9
Peru	15.4	10.2	11.8	6.5	6.0	3.7	3.7	-0.1	1.5	1.9
Dominican Republic	14.3	9.2	4.0	8.4	7.8	5.1	9.0	4.4	10.5	40.1
Trinidad and Tobago	5.5	3.8	4.3	3.5	5.6	3.4	5.6	3.2	4.3	4.2 [f]
Uruguay	44.1	35.4	24.3	15.2	8.6	4.2	5.1	3.6	25.9	10.8
Venezuela	70.8	56.6	103.2	37.6	29.9	20.0	13.4	12.3	31.2	26.1

Source: ECLAC, on the basis of official figures.
[a] Variation from November 2002 to November 2003.
[b] Does not include Cuba.
[c] Variation from March 2002 to March 2003.
[d] Variation from October 2002 to October 2003.
[e] Variation from September 2002 to September 2003.
[f] Variation from June 2002 to June 2003.

Table A - 24

LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES

(Average annual indices: 1995 = 100)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
Argentina [b]	101.1	100.0	99.9	99.3	99.0	100.1	101.6	101.0	87.0	85.3 [c]
Bolivia [d]	98.5	100.0	99.0	105.1	108.1	115.0	115.9	120.3	124.1	...
Brazil [e]	96.3	100.0	107.9	110.8	110.8	105.9	104.8	99.6	97.5	88.3 [c]
Chile [f]	96.1	100.0	104.1	106.6	109.5	112.1	113.7	115.5	117.9	118.8 [g]
Colombia [b]	97.1	100.0	102.3	106.5	106.7	111.4	115.7	115.4	118.2	117.7 [h]
Costa Rica [i]	102.0	100.0	97.9	98.7	104.3	109.2	110.1	111.2	115.7	116.3 [h]
Mexico [b]	114.4	100.0	90.1	89.6	92.1	93.5	99.1	105.7	107.5	109.3 [c]
Nicaragua	98.2	100.0	97.9	97.7	104.9	109.6	111.3	116.1	121.1	124.0 [j]
Paraguay	93.0	100.0	103.1	102.6	100.7	98.6	99.9	101.3	94.8	92.6
Peru [l]	109.2	100.0	95.2	94.5	92.7	90.7	91.4	90.6	94.8	...
Uruguay	102.9	100.0	100.6	100.8	102.7	104.3	102.9	102.7	91.7	80.4 [g]
Venezuela [m]	104.8	100.0	76.7	96.3	101.5	96.8	98.3	100.7	90.6	77.9 [c]

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures.

[b] Manufacturing.

[c] Estimate based on data for January-September.

[d] Private sector in La Paz.

[e] Workers covered by social and labour legislation.

[f] General index of hourly wages.

[g] Estimate based on data for January-October.

[h] Estimate based on data for January-August.

[i] Average wages declared by workers covered by social security.

[j] Estimate based on data for January-July.

[k] June.

[l] Private-sector manual workers in the Lima metropolitan area.

[m] Private sector.

Table A - 25

LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR PLUS [a]

(Percentages of GDP)

	Coverage [b]	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 [c]
Latin America and the Caribbean	**CG**	**-1.8**	**-1.6**	**-1.4**	**-1.1**	**-2.2**	**-2.9**	**-2.7**	**-3.2**	**-3.0**	**-2.4**
Argentina	NA	-0.9	-1.9	-2.8	-1.4	-1.8	-3.0	-2.1	-3.8	-0.3	-0.2
	NFPS	-3.2	-3.3	-1.1	-2.4	-2.3	-3.3	-3.3	-7.8	-1.0	…
Bolivia	GG	-2.6	-1.3	-1.7	-3.6	-4.1	-3.8	-3.9	-7.4	-9.2	-6.6
	NFPS	-3.0	-1.8	-1.9	-3.3	-4.8	-3.9	-3.7	-6.9	-8.9	-9.0
Brazil	FG [d]	-0.6	-5.0	-3.7	-3.0	-4.0	-3.3	-1.2	-1.3	-0.3	-1.1
	CPS [d]	…	…	…	…	-7.1	-1.1	-1.2	-1.1	2.6	…
Chile	CG	1.6	2.4	2.1	1.8	0.4	-1.4	0.1	-0.3	-0.8	-0.8
	NFPS	1.9	2.4	1.6	0.8	-0.6	-1.5	-0.6	-0.7	-1.6	…
Colombia	NCG [e]	-1.2	-2.1	-3.3	-3.5	-4.7	-5.3	-6.4	-5.3	-4.9	-4.7
	NFPS	0.1	-0.3	-1.7	-2.8	-3.7	-4.1	-4.2	-4.1	-3.6	…
Costa Rica	CG	-5.4	-3.5	-4.0	-2.9	-2.5	-2.2	-3.0	-2.9	-4.3	-2.8
	NFPS [f]	-5.2	-1.6	-2.5	-0.8	-0.6	-1.7	-1.6	-1.6	-3.9	…
Ecuador	CG	-0.1	-1.4	-2.4	-1.2	-4.1	-2.9	0.1	-0.7	-0.8	-0.9
	NFPS	0.5	-1.0	-2.7	-2.1	-4.8	-3.9	1.5	0.4	0.6	…
El Salvador	CG	-0.7	-0.6	-1.8	-1.1	-2.0	-2.1	-2.3	-3.6	-3.1	-2.1
	NFPS	-0.6	-0.1	-2.5	-1.8	-2.6	-2.8	-3.0	-3.7	-3.3	…
Guatemala	CG	-1.4	-0.5	0.0	-0.8	-2.2	-2.8	-1.8	-1.9	-1.0	-1.6
Haiti	CG [g]	-3.2	-4.1	-1.5	-1.9	-2.2	-2.4	-2.5	-2.7	-3.1	-4.0
Honduras	CG [h]	-5.5	-3.1	-3.5	-2.8	-1.2	-4.3	-5.8	-6.0	-5.2	-5.4
	NFPS	-6.0	4.3	-2.5	-1.0	2.9	0.7	-2.3	-2.3	…	…
Mexico	CG	0.0	-0.6	-0.2	-1.1	-1.4	-1.5	-1.3	-0.7	-1.8	-0.6
	PS	0.2	0.0	0.0	-0.7	-1.2	-1.1	-1.1	-0.7	-1.2	…
Nicaragua	CG [h]	-3.2	-0.3	-0.9	-0.8	-1.2	-3.8	-5.0	-8.7	-4.1	-2.3
	NFPS	-3.7	-1.5	-2.9	-1.0	0.4	-2.2	-4.5	-6.4	-0.8	…
Panama	CG	-0.7	0.8	0.2	-0.4	-4.9	-2.4	-1.3	-2.0	-2.4	-2.6
	NFPS	3.6	3.5	1.9	0.1	-2.9	-1.4	0.5	-0.8	-2.3	…
Paraguay	CA [i]	2.4	0.0	0.0	1.4	0.0	-2.8	-4.5	-1.1	-3.1	-0.8
	NFPS	2.7	1.2	0.8	0.9	0.2	-3.3	-4.4	-0.4	-2.2	…
Peru	CG	-3.2	-3.4	-1.4	-0.8	-1.1	-3.2	-2.8	-2.8	-2.2	-1.9
	NFPS	-2.8	-3.1	-1.0	0.2	-0.9	-3.2	-3.2	-2.5	-2.3	…
Dominican Republic	CG [j]	-0.6	1.1	0.0	0.9	0.6	-3.2	-2.1	-1.9	-2.2	-0.4
Uruguay	CG	-1.9	-1.9	-1.8	-1.6	-1.2	-3.8	-4.0	-4.4	-4.7	…
	BPS	-2.6	-1.5	-1.4	-1.4	-0.9	-4.0	-4.1	-4.3	-4.6	-3.6
Venezuela	CG	-7.3	-4.3	0.6	1.9	-3.8	-1.6	-1.6	-4.2	-3.3	-3.0
	NPS	-13.3	-5.7	6.8	3.6	-4.3	0.7	4.3	-4.5	-1.1	…

Source: ECLAC, on the basis of official figures.

[a] Income minus total expenditure, expressed in each country's national currency.

[b] Abbreviations used: NA = national administration; CA = central administration; CG = central government; FG = federal government; GG = general government; NCG = national central government; NFPS = non-financial public sector; PS = public sector; CPS = consolidated public sector; BPS = global public sector, broadly defined; NPS = public sector, narrowly defined.

[c] Preliminary estimate.

[d] Operating balance.

[e] Global balance, with no adjustment for accruals and without including the costs of financial restructuring.

[f] Up to 1996, reduced non-financial public sector.

[g] Global balance calculated “above the line”.

[h] New methodology from 1998 (accrual basis).

[i] Up to 1999, corresponds to central government.

[j] New methodology from 1999 (accrual basis).

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